

**MUNICIPALITY OF GARRETSON  
GARRETSON, SOUTH DAKOTA**

**AUDIT REPORT**

**FOR THE YEAR JANUARY 1, 2016 TO DECEMBER 31, 2016  
AND  
FOR THE YEAR JANUARY 1, 2017 TO DECEMBER 31, 2017**

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF GARRETSON

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MUNICIPAL OFFICIALS  
DECEMBER 31, 2017

MAYOR:

Tim Mullin

GOVERNING BOARD:

Greg Beaner  
Dave Bonte  
Richelle Hofer  
Bill Hoskins  
Dwayne Jacobson  
Gloria Sanders

FINANCE OFFICER:

Anna Uhl

ATTORNEY:

Cutler & Donahoe, LLP

*Schoenfish & Co., Inc.*

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TABLE OF CONTENTS

|   |       |
|---|-------|
| Independent Auditor's Report on Internal Control Over Financial Reporting<br>and on Compliance and Other Matters Based on an Audit of Financial<br>Statements Performed in Accordance with <i>Government Auditing Standards</i> ..... | 1-2   |
| Schedule of Prior Audit Findings .....  | 3     |
| Schedule of Current Audit Findings .....  | 4-5   |
| Independent Auditor's Report .....  | 6-7   |
| Management's Discussion and Analysis (MD&A) .....   | 8-19  |
| BASIC FINANCIAL STATEMENTS:   |       |
| Government-Wide Financial Statements:   |       |
| As of December 31, 2017:  |       |
| Statement of Net Position .....   | 20    |
| For the Year Ended December 31, 2017:   |       |
| Statement of Activities .....   | 21    |
| Fund Financial Statements:  |       |
| For the Year Ended December 31, 2017:   |       |
| Governmental Funds:   |       |
| Balance Sheet .....   | 22    |
| Reconciliation of the Governmental Funds<br>Balance Sheet to the Statement of Net Position .....  | 23    |
| Statement of Revenues, Expenditures, and Changes<br>In Fund Balances .....  | 24-26 |
| Reconciliation of the Statement of Revenues, Expenditures,<br>And Changes in Fund Balances to the Government-Wide<br>Statement of Activities .....  | 27    |
| Proprietary Funds:  |       |
| Statement of Net Position .....   | 28-29 |
| Statement of Revenues, Expenses, and Changes<br>in Fund Net Position .....  | 30    |
| Statement of Cash Flows .....   | 31-32 |
| Government-Wide Financial Statements:   |       |
| As of December 31, 2016:  |       |
| Statement of Net Position .....   | 33    |
| For the Year Ended December 31, 2016:   |       |
| Statement of Activities .....   | 34    |

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P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

TABLE OF CONTENTS  
(Continued)

|  |       |
|--|-------|
| Fund Financial Statements:   |       |
| For the Year Ended December 31, 2016:  |       |
| Governmental Funds:  |       |
| Balance Sheet .....  | 35    |
| Reconciliation of the Governmental Funds<br>Balance Sheet to the Statement of Net Position .....   | 36    |
| Statement of Revenues, Expenditures, and Changes<br>In Fund Balances .....   | 37-39 |
| Reconciliation of the Statement of Revenues, Expenditures,<br>And Changes in Fund Balances to the Government-Wide<br>Statement of Activities ..... | 40    |
| Proprietary Funds:   |       |
| Statement of Net Position .....  | 41-42 |
| Statement of Revenues, Expenses, and Changes<br>in Fund Net Position .....   | 43    |
| Statement of Cash Flows .....  | 44-45 |
| Notes to the Financial Statements .....  | 46-67 |
| Required Supplementary Information Other than MD&A:  |       |
| For the Year Ended December 31, 2017:  |       |
| Budgetary Comparison Schedule – Budgetary Basis – General Fund .....   | 68-69 |
| Budgetary Comparison Schedule – Budgetary Basis – Sales Tax Fund .....   | 70    |
| Budgetary Comparison Schedule – Budgetary Basis – Liquor, Lodging & Dining Fund .....  | 71    |
| For the Year Ended December 31, 2016:  |       |
| Budgetary Comparison Schedule – Budgetary Basis – General Fund .....   | 72-73 |
| Budgetary Comparison Schedule – Budgetary Basis – Sales Tax Fund .....   | 74    |
| Budgetary Comparison Schedule – Budgetary Basis – Liquor, Lodging & Dining Fund .....  | 75    |
| Notes to the Required Supplementary<br>Information – Budgetary Comparison Schedules .....  | 76    |
| Schedule of the Municipality's Proportionate Share of the<br>Net Pension Liability (Asset) .....   | 77    |
| Schedule of the Municipality Contributions - South Dakota Retirement System .....  | 78    |

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105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Municipal Council  
Municipality of Garretson  
Garretson, South Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Garretson, South Dakota (Municipality), as of December 31, 2017 and 2016, and for each of the years in the biennial period then ended which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated September 21, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Municipality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2017-001 to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be

reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Current Audit Findings as item 2017-002.

The Municipality of Garretson's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. We did not audit the Municipality's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Municipality of Garretson, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.  
Certified Public Accountants  
September 21, 2018

*Schoenfish & Co., Inc.*

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SCHEDULE OF PRIOR AUDIT FINDINGSPRIOR AUDIT FINDINGS:Finding Number 2015-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties existed for the revenues. This finding has not been corrected and is restated as current audit finding number 2017-001.

Finding Number 2015-002:

The Municipality borrowed money on a promissory note with terms contrary to state statute. This comment has been corrected.

Finding Number 2015-003:

Expenditures exceeded the amounts budgeted in several departments in the General Fund in 2014 and 2015, in the Second Penny Fund in 2014, and in the Liquor, Lodging, and Dining Fund in 2014. This comment has not been corrected and is restated as current audit finding number 2017-002.

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SCHEDULE OF CURRENT AUDIT FINDINGSCURRENT AUDIT FINDINGS:Internal Control – Related Findings – Material Weaknesses:Finding Number 2017-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties existed for the revenues. This is a continuing audit comment since 2001.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

The Finance Officer processes almost all revenue transactions from beginning to end. The Finance Officer also receives money, issues receipts, records receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the Municipality of Garretson officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Municipality of Garretson Mayor, Greg Beaner, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Garretson, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to develop policies and provide compensating controls.

Compliance – Related Findings:Finding Number 2017-002:

The General Fund was budgeted to spend more money than was available in 2017. This is a continuing audit comment since 2013.

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SCHEDULE OF CURRENT AUDIT FINDINGS  
(Continued)

Criteria:

SDCL 9-21-2 states in part, "The governing body of each municipality shall, no later than its first regular meeting in September of each year or within ten days thereafter, introduce the annual appropriation ordinance for the ensuing fiscal year, in which it shall appropriate the sums of money necessary to meet all lawful expenses and liabilities of the municipality." Also, SDCL 9-21-9 states, "Neither the governing body nor any department or office of the municipality shall add to the municipal expenditures in any fiscal year any sum in excess of the amount provided for in the annual appropriation ordinance except as otherwise specially provided. Nor shall the amount spent for any purpose or any department exceed the total amount appropriated for such purpose or for such department in the annual appropriation ordinance for such year, except as otherwise specially provided."

Condition:

The Municipality budgeted to spend more money than available which is not allowed as stated by SDCL 9-21-9.

Effect:

Without amending the budget or limiting expenditures, expenditures are being made without proper authority. Also, budgets are not being properly adopted in accordance with budgetary guidelines.

Recommendation:

2. We recommend that budgets be adopted in accordance with SDCL 9-21-9 and that the expenditures be limited to amounts budgeted or budget supplements be made in accordance with SDCL 9-21-7 and SDCL 9-21-6.1 to allow for expenditures.

Management's Response:

The Municipality of Garretson Mayor, Greg Beaner, is the contact person responsible for the response for this comment. The Municipality will be more careful to follow the budgetary guidelines prescribed by law.

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the Mayor and Finance Officer on October 18, 2018.

*Schoenfish & Co., Inc.*

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Municipality of Garretson  
Garretson, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Garretson, South Dakota, (Municipality) as of December 31, 2017 and 2016, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

The Municipality's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major

fund of the Municipality of Garretson as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for each of the years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America.

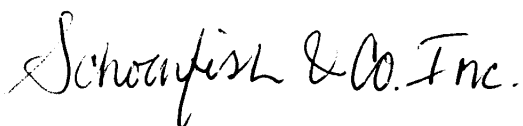
### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Budgetary Comparison Schedules, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of the Municipality's Contributions on pages 8 through 19, 68 through 75, 77, and 78, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2018 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.  
 Certified Public Accountants  
 September 21, 2018

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**MUNICIPALITY OF GARRETSON, SOUTH DAKOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

This section of Municipality of Garretson, South Dakota (Municipality) financial report presents our discussion and analysis of the Municipality's financial performance during the fiscal years ended on December 31, 2017. Please read it in conjunction with the Municipality's financial statements, which follow this section.

## **FINANCIAL HIGHLIGHTS**

- During the 2017 year, the Municipality's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$284,136 more than the \$1,463,605 expenditures. This is a decrease from the prior year when revenues exceeded expenditures by \$828,877.
- In 2017, the total cost of the Municipality's programs increased by \$133,764 from the prior year with the largest decrease in the natural gas function of the Municipality due to fluctuating natural gas prices.
- In 2017 the Dam Project was completed for a total cost of \$1,621,842. The Federal government paid 85% of the costs and the city paid the remaining 15%.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Municipality:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Municipality's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Municipal government, reporting the Municipality's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities that the Municipality operates like businesses. The Municipality has three proprietary funds – the Water, Sewer, and Natural Gas Funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the Municipality's financial statements, including the portion of the Municipal government they cover and the types of information they contain. The

remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

**Figure A-1**

| Major Features of Municipality of Garretson's Government-wide and Fund Financial Statements |  |  |  |
|---|--|--|--|
|   | Government-wide Statements   | Fund Statements  |  |
|   |  | Governmental Funds   | Proprietary Funds  |
| <b>Scope</b>  | Entire municipal government  | The activities of the municipality that are not proprietary or fiduciary, such as finance office, police, fire and parks   | Activities the municipality operates similar to private businesses, the water, sewer, natural gas systems              |
| <b>Required Financial Statements</b>  | *Statement of Net Position<br>*Statement of Activities                               | *Balance Sheet<br>*Statement of Revenues, Expenditures and Changes in Fund Balances  | *Statement of Net Position<br>*Statement of Revenues, Expenses and Changes in Net Position<br>*Statement of Cash Flows |
| <b>Accounting Basis and Measurement Focus</b>   | Accrual accounting and economic resources focus                                      | Modified accrual accounting and current financial resources focus  | Accrual accounting and economic resources focus  |
| <b>Type of Asset/Liability Information</b>  | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included   | All assets and liabilities, both financial and capital, and short-term and long-term                                   |
| <b>Type of Inflow/Outflow Information</b>   | All revenues and expenses during year, regardless of when cash is received or paid   | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid                                     |

## Government-wide Statements

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Municipality's net position and how they have changed. Net position – the difference between the Municipality's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources– is one way to measure the Municipality's financial health or position.

- Increases or decreases in the Municipality's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Municipality you need to consider additional nonfinancial factors such as changes in the Municipality's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the Municipality are reported in two categories:

- **Governmental Activities** -- This category includes the most of the Municipality's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- **Business-type Activities** -- The Municipality charges a fee to customers to help cover the costs of certain services it provides. The Municipality's water, sewer, and natural gas systems are included here.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the Municipality's most significant funds – not the Municipality as a whole. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The Municipal Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Municipality has two kinds of funds:

- **Governmental Funds** – Most of the Municipality's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the Municipality charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Municipality's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

## FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

### Net Position

The Municipality's combined net position increased by 4% between fiscal year 2016 and 2017 – increasing by \$284,136 (See Table A-1).

|                               | Governmental<br>Activities |              |              |              | Business-Type<br>Activities |              |              |              | Total        |              |
|-------------------------------|----------------------------|--------------|--------------|--------------|-----------------------------|--------------|--------------|--------------|--------------|--------------|
|                               | 2015                       | 2016         | 2017         | 2015         | 2016                        | 2017         | 2015         | 2016         | 2015         | 2017         |
| Current and Other Assets      | 1,593                      | 928          | 1,196        | 1,803        | 1,899                       | 1,789        | 3,396        | 2,827        | 2,985        | 2,985        |
| Capital Assets                | 2,265                      | 3,138        | 3,057        | 4,076        | 3,970                       | 3,956        | 6,341        | 7,108        | 7,013        | 7,013        |
| <b>Total Assets</b>           | <b>3,858</b>               | <b>4,066</b> | <b>4,253</b> | <b>5,879</b> | <b>5,869</b>                | <b>5,745</b> | <b>9,737</b> | <b>9,935</b> | <b>9,998</b> | <b>9,998</b> |
| Deferred Outflows             | 28                         | 22           | 19           | 64           | 74                          | 77           | 92           | 96           | 96           | 96           |
| Long-Term Liabilities         | 7                          | 217          | 195          | 2,016        | 1,845                       | 1,624        | 2,023        | 2,062        | 1,819        | 1,819        |
| Other Liabilities             | 651                        | 10           | 18           | 156          | 173                         | 176          | 807          | 183          | 194          | 194          |
| <b>Total Liabilities</b>      | <b>658</b>                 | <b>227</b>   | <b>213</b>   | <b>2,172</b> | <b>2,018</b>                | <b>1,800</b> | <b>2,830</b> | <b>2,245</b> | <b>2,013</b> | <b>2,013</b> |
| Deferred Inflows              | 24                         | 2            | 4            | 24           | 3                           | 12           | 48           | 5            | 16           | 16           |
| <b>Net Position</b>           |                            |              |              |              |                             |              |              |              |              |              |
| Net Invest. in Capital Assets | 2,265                      | 2,938        | 2,865        | 2,068        | 2,373                       | 2,343        | 4,333        | 5,311        | 5,208        | 5,208        |
| Restricted                    | 79                         | 68           | 77           | 229          | 230                         | 251          | 308          | 298          | 328          | 328          |
| Unrestricted                  | 860                        | 853          | 1,112        | 1,450        | 1,318                       | 1,416        | 2,310        | 2,171        | 2,528        | 2,528        |
| <b>Total Net Position</b>     | <b>3,204</b>               | <b>3,859</b> | <b>4,054</b> | <b>3,747</b> | <b>3,921</b>                | <b>4,010</b> | <b>6,951</b> | <b>7,780</b> | <b>8,064</b> | <b>8,064</b> |
| Net Position, Beginning       | 2,962                      | 3,204        | 3,859        | 3,618        | 3,747                       | 3,921        | 6,580        | 6,951        | 7,780        | 7,780        |
| Prior Period Adjustments      | 18                         | 0            | 0            | 17           | 0                           | 0            | 35           | 0            | 0            | 0            |
| Restated Net Position         | 2,980                      | 3,204        | 3,859        | 3,635        | 3,747                       | 3,921        | 6,615        | 6,951        | 7,780        | 7,780        |
| Change in Net Position        | 224                        | 655          | 195          | 112          | 174                         | 89           | 336          | 829          | 284          | 284          |
| Percentage of Change          | 8%                         | 20%          | 5%           | 3%           | 5%                          | 2%           | 5%           | 12%          | 4%           | 4%           |

The Statement of Net Position presents the assets and liabilities in order of relative liquidity. Liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. Long-term liabilities of the Municipality, consisting of compensated absences payable, notes payable, water and sewer revenue bonds payable, and gas utility bonds payable have been reported in this manner on the Statement of Net Position. The difference between the Municipality's assets plus deferred outflows and liabilities plus deferred inflows is its net position.

The Municipality's net position reflect its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The increase in net investment in capital assets relates to the Municipality's construction in progress for the dam which is part of the parks department and by the payments on long-term debt.

The Municipality's restricted net position represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants. There was an increase in restricted net position due to increases in the prepaid expenses and pension assets, also there was a reduction in facilities and promoting the Municipality in the current year.

The remaining balance of net position is unrestricted and may be used to meet the Municipality's ongoing obligations to citizens and creditors.

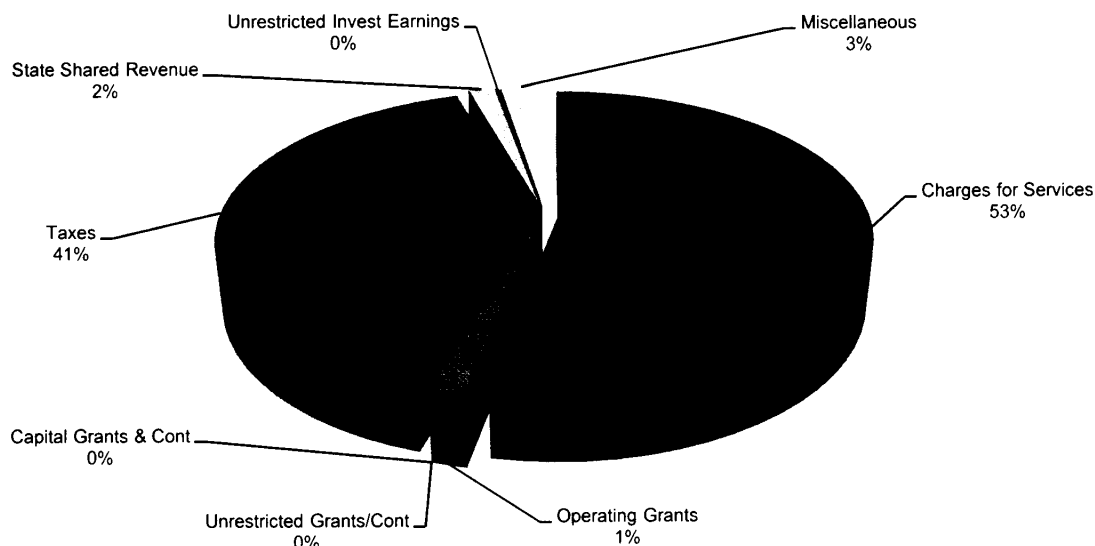
At the end of the current year, the Municipality is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

### **Changes in Net Position**

The Municipality's revenues totaled \$1,747,741 for 2017. (See Table A-2.) Well over half of the Municipality's revenue comes from charges for services and taxes; with 53 cents of every dollar raised coming from charges for services (primarily water, sewer, and natural gas operations) and 41 cents of every dollar raised comes from some type of tax. (See Figure A-2 & Figure A-3). Another one cent came from state and federal grants for operating and capital purposes and most of the rest comes from state-shared revenues and interest earnings.

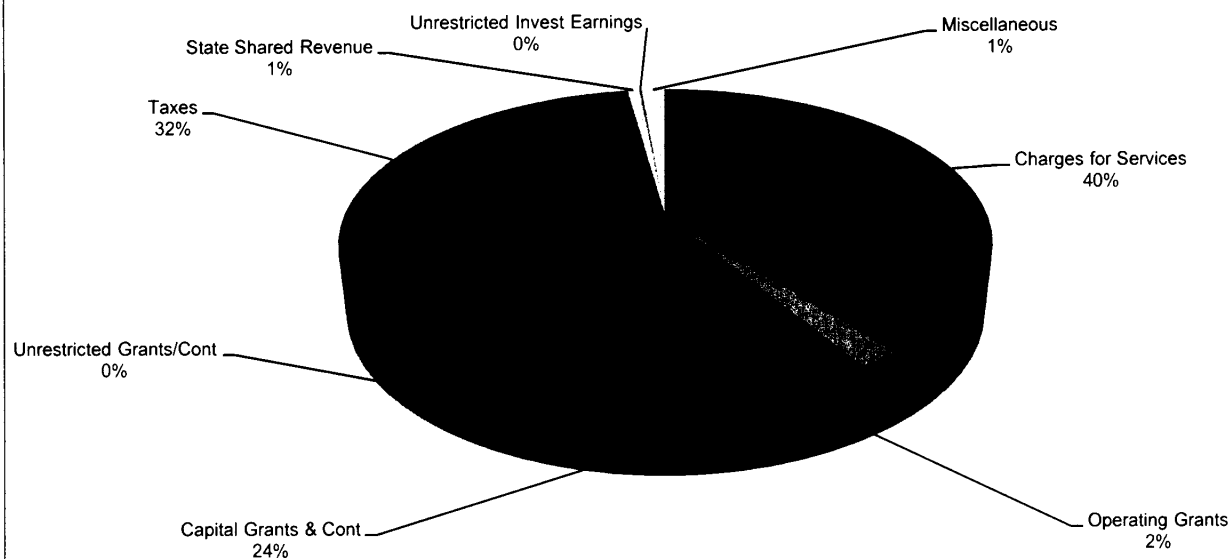


**Figure A-2, Municipality of Garretson  
Sources of Revenue for Fiscal Year 2017**

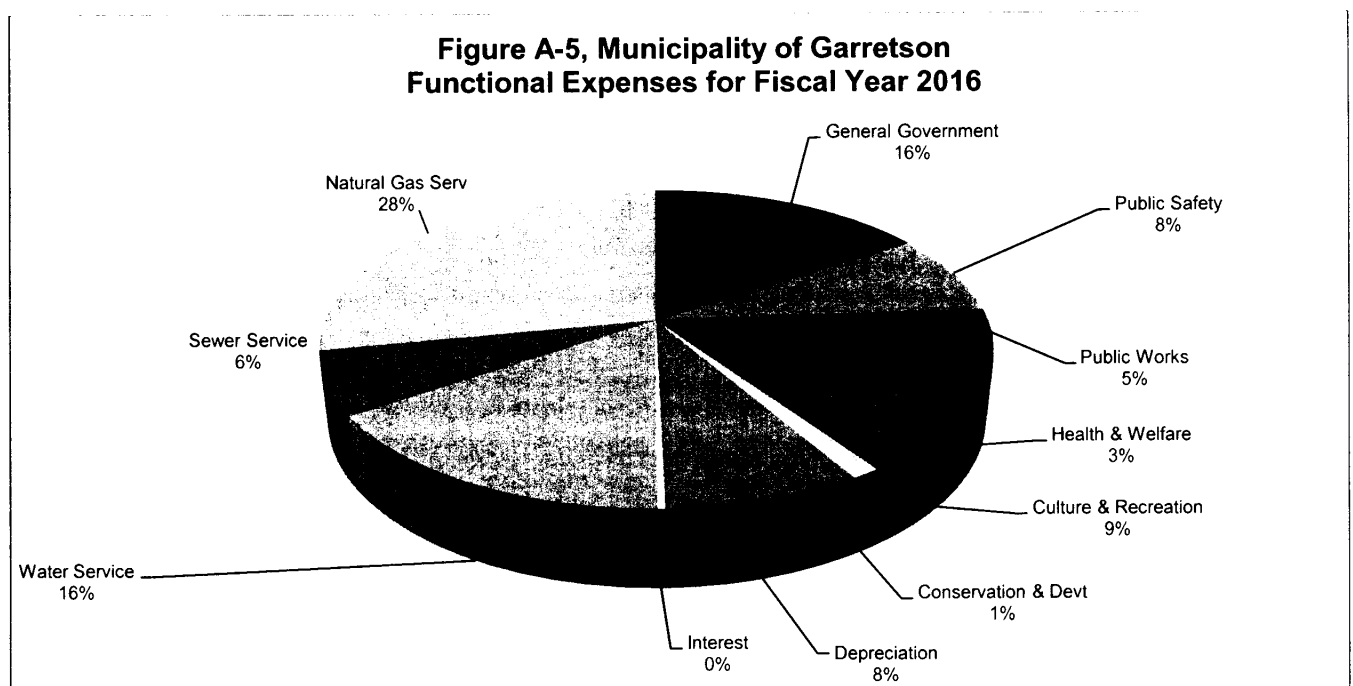
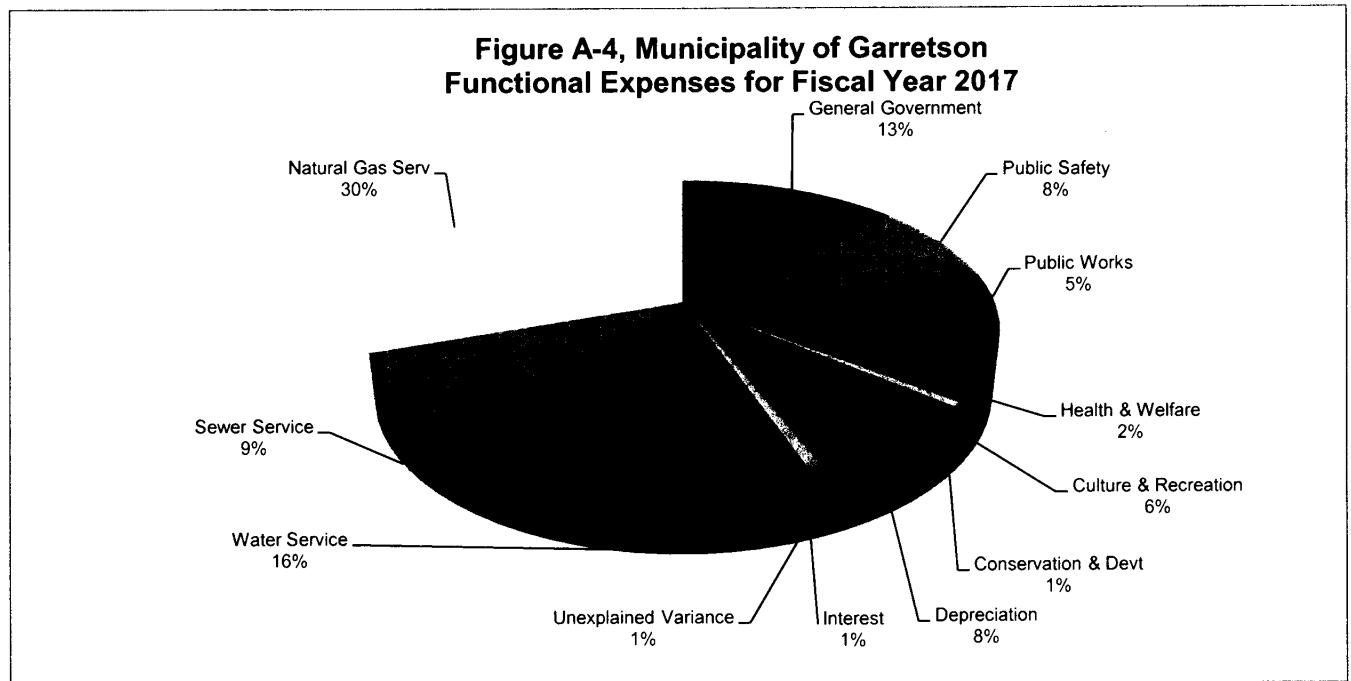


The Municipality's revenues totaled \$2,158,718 for 2016. (See Table A-2.) Well over half of the Municipality's revenue comes from charges for services and taxes; with 40 cents of every dollar raised coming from charges for services (primarily water, sewer, and natural gas operations) and 32 cents of every dollar raised comes from some type of tax. (See Figure A-2 & Figure A-3). Another 26 cents came from state and federal grants for operating and capital purposes (there was an increase in capital grants due to dam project reimbursements) and most of the rest comes from state-shared revenues and interest earnings

**Figure A-3, Municipality of Garretson  
Sources of Revenue for Fiscal Year 2016**



The total cost of all programs and services increased by 9 percent from 2016 to 2017 and 2 percent from 2015 to 2016. The Municipality's expenses cover a range of services with over 55% related to public work services (road maintenance, water system services, sewer system services, and natural gas system services). (See Figure A-4 & Figure A-5)



## Governmental Activities

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

**Table A-2**  
MUNICIPALITY OF GARRETSON  
Changes in Net Position  
(Expressed in Thousands)

|   | Governmental<br>Activities |       |       | Business-Type<br>Activities |       |       | Total |       |       |
|---|----------------------------|-------|-------|-----------------------------|-------|-------|-------|-------|-------|
|   | 2015                       | 2016  | 2017  | 2015                        | 2016  | 2017  | 2015  | 2016  | 2017  |
| Program Revenues:                       |                            |       |       |                             |       |       |       |       |       |
| Charges for Services                    | 35                         | 14    | 43    | 810                         | 837   | 887   | 845   | 851   | 930   |
| Operating Grants                        | 27                         | 41    | 27    |                             |       |       | 27    | 41    | 27    |
| Capital Grants & Cont.                  | 1                          | 525   | 0     |                             |       |       | 1     | 525   | 0     |
| Unrestricted Grants & Cont.             | 1                          | 0     | 0     |                             |       |       | 1     | 0     | 0     |
| General Revenues:                       |                            |       |       |                             |       |       |       |       |       |
| Taxes                                   | 681                        | 693   | 713   |                             |       |       | 681   | 693   | 713   |
| State Shared Revenue                    | 22                         | 14    | 28    |                             |       |       | 22    | 14    | 28    |
| Unrestricted Invest Earnings            | 2                          | 2     | 2     | 3                           | 2     | 2     | 5     | 4     | 4     |
| Miscellaneous                           | 62                         | 29    | 45    |                             |       |       | 62    | 29    | 45    |
| Total Revenue                           | 831                        | 1,318 | 858   | 813                         | 839   | 889   | 1,644 | 2,157 | 1,747 |
| Expenses:                               |                            |       |       |                             |       |       |       |       |       |
| General Government                      | 153                        | 210   | 197   |                             |       |       | 153   | 210   | 197   |
| Public Safety                           | 113                        | 109   | 123   |                             |       |       | 113   | 109   | 123   |
| Public Works                            | 107                        | 63    | 79    |                             |       |       | 107   | 63    | 79    |
| Health & Welfare                        | 40                         | 39    | 35    |                             |       |       | 40    | 39    | 35    |
| Culture & Recreation                    | 105                        | 116   | 87    |                             |       |       | 105   | 116   | 87    |
| Conservation & Development              | 7                          | 15    | 7     |                             |       |       | 7     | 15    | 7     |
| Depreciation                            | 82                         | 107   | 116   |                             |       |       | 82    | 107   | 116   |
| Debt Service                            |                            | 4     | 9     |                             |       |       | 0     | 4     | 9     |
| Unexplained Variance                    |                            |       | 10    |                             |       |       |       |       | 10    |
| Water Service                           |                            |       |       | 199                         | 208   | 233   | 199   | 208   | 233   |
| Sewer Service                           |                            |       |       | 96                          | 85    | 125   | 96    | 85    | 125   |
| Natural Gas Service                     |                            |       |       | 406                         | 372   | 442   | 406   | 372   | 442   |
| Total Expenses                          | 607                        | 663   | 663   | 701                         | 665   | 800   | 1,308 | 1,328 | 1,463 |
| Excess (Deficiency)<br>Before Transfers | 224                        | 655   | 195   | 112                         | 174   | 89    | 336   | 829   | 284   |
| Change in Net Position                  | 224                        | 655   | 195   | 112                         | 174   | 89    | 336   | 829   | 284   |
| Prior Period Adjustment                 | 18                         |       | 0     | 17                          |       | 0     | 35    | 0     | 0     |
| Net Position - Ending                   | 3,204                      | 3,859 | 4,054 | 3,747                       | 3,921 | 4,010 | 6,951 | 7,780 | 8,064 |

### **Governmental-type Activities**

Total revenues for the Municipality's governmental funds increased 59 percent in 2016 due to the dam project reimbursements. Expenses remained relatively steady.

### **Business-type Activities**

Revenues of the Municipality's business-type activities increased by 6 percent due to an increase in utility rates, and expenses increased by 20 percent from 2016 to 2017. The primary reason for the expense increase is due to an increase in natural gas & water supply.

## **FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS**

The financial analysis of the Municipality's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The Municipality maintains three governmental funds - General, Additional Sales Tax, and Liquor, Lodging and Dining Sales Tax Funds and three business-type funds – Water, Sewer, and Natural Gas. In 2016, the General Fund had a decrease in fund balance of \$63,951, mainly due to a note payable issued to help finance the dam project. In 2017, the General Fund had an increase of \$194,712. One factor contributing to this increase was the sale of land for \$59,000.

### **General Fund Budgetary Highlights**

During the year 2016, the Municipal Council revised the Municipal budget two times and one time in 2017. These amendments fall into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriation line items, primarily by contingency transfer, to prevent budget overruns.

|                  | 2015          | 2016           | 2017          |
|------------------|---------------|----------------|---------------|
| Original         | 546,292       | 601,620        | 629,578       |
| Final            | 633,892       | 1,553,143      | 684,378       |
| Change in Budget | <u>87,600</u> | <u>951,523</u> | <u>54,800</u> |

## CAPITAL ASSET ADMINISTRATION

By the end of 2017, the Municipality had invested \$3,056,607 of governmental funds in a broad range of capital assets, including land, buildings, various machinery and equipment. The Municipality also had invested \$3,955,481 in business-type activities. (See Table A-3.)

**Table A-3**  
**Municipality of Garretson - Capital Assets (net of depreciation)**  
**(Expressed in thousands of dollars)**

|                                   | Governmental<br>Activities |              |              | Business-type<br>Activities |              |              |
|-----------------------------------|----------------------------|--------------|--------------|-----------------------------|--------------|--------------|
|                                   | 2015                       | 2016         | 2017         | 2015                        | 2016         | 2017         |
| Land                              | \$ 173                     | \$ 173       | \$ 153       | \$ 139                      | \$ 139       | \$ 139       |
| Buildings                         | 368                        | 364          | 359          | 463                         | 454          | 441          |
| Improvements Other Than Buildings | 781                        | 2,425        | 2,386        | 3,284                       | 3,193        | 3,209        |
| Machinery and Equipment           | 133                        | 175          | 153          | 190                         | 178          | 166          |
| Construction in Progress          | 810                        | 0            | 6            | 0                           | 0            | 0            |
| <b>Total Capital Assets (Net)</b> | <b>2,265</b>               | <b>3,137</b> | <b>3,057</b> | <b>4,076</b>                | <b>3,964</b> | <b>3,955</b> |

The 2017 year's major capital asset additions and deletions included:

- Swimming Pool Bathroom & Picnic Shelter
- Street Repairs
- Security Cameras
- Sewer Line Upgrade
- Clearing waterway
- Trailer
- Plow
- CWIP for SDTAP project
- Sale of Land

The 2016 year's major capital asset additions and deletions included:

- Concession ceiling
- Dugouts
- Ball field fence
- Dows St overlay
- JC road
- Crack sealing
- Street Sweeper
- Ditchwitch
- Reg Station fence
- Gas meters
- Natural gas detector
- Dam project
- Sale of Street Sweeper

## LONG-TERM DEBT

At the year-end of December 31, 2017, the Municipality had \$1,819,437 in Notes Payable, Water & Sewer Revenue Bonds, Natural Gas Notes Payable, and other long-term obligations as shown on Table A-4 following.

**Table A-4**  
**Municipality of Garretson - Outstanding Debt and Obligations**  
 (Expressed in thousands of dollars)

|   | Governmental<br>Activities |               |               | Business-type<br>Activities |                 |                 |
|---|----------------------------|---------------|---------------|-----------------------------|-----------------|-----------------|
|   | 2015                       | 2016          | 2017          | 2015                        | 2016            | 2017            |
| Compensated Absences                              | \$ 7                       | \$ 7          | \$ 4          | \$ 8                        | \$ 8            | \$ 11           |
| SRF Drinking Water Loan                           |                            |               |               | 814                         | 782             | 750             |
| Gas Utility Notes Payable                         |                            |               |               | 788                         | 385             | 363             |
| SRF Clean Water Loan                              |                            |               |               | 406                         | 649             | 499             |
| Note Payable                                      |                            | 200           | 192           | 0                           | 17              | 0               |
| <b>Total Outstanding Debt<br/>and Obligations</b> | <b>\$ 7</b>                | <b>\$ 207</b> | <b>\$ 196</b> | <b>\$ 2,016</b>             | <b>\$ 1,841</b> | <b>\$ 1,623</b> |

The Municipality is liable for the accrued vacation leave payable to all full-time employees who have been employed for more than one year of \$15,217. There was no major change in the amount of leave accumulated and outstanding at the end of 2017 from the prior year.

The Municipality has outstanding \$191,639 Dam Replacement Loan. The loan is paid from the General Fund. The money was used for reconstructing of the dam and will be fully paid off on May 30, 2022.

The Municipality has outstanding \$750,302 in State Revolving Loan Fund. The loan is secured and paid for from the Water Fund. The money was used to join the Minnehaha Rural Water Corporation and will be fully paid off on July 1, 2034.

The Municipality has outstanding \$499,433 in a note payable that was used to pay off the Gas Utility Revenue Refunding Bonds, Series 1996. The note is secured and paid for from the Natural Gas Fund. The original bonds were used to purchase the natural gas lines and equipment. The note payable allows the Municipality to pay additional payments yearly if additional natural gas funds are available. The loan will be fully paid off on December 12, 2020.

The Municipality has outstanding \$362,845 in State Revolving Loan Fund. The loan is secured and paid for from the Sewer Fund. The money was used to build a lift station. The loan will be fully paid off on June 15, 2030.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality's current economic position has shown little change. The Municipality did not experience an increase in total property valuation from the prior year. The property valuation allowed the Municipality to keep the amount of revenue generated from property taxes approximately the same as last year. Under the state mandated property tax limitation, property taxes from one year to the next

may increase 3% or an amount based on the Consumer Price Index (CPI), whichever is lower. This year property tax levy requests remained about the same as the prior year.

One of the primary sources of revenue to the Municipality is based on taxable retail sales in the community (sales tax). The Municipality has experienced an increase in taxable sales of 4.48% over the prior year. The Municipality has budgeted for an increase in sales tax revenue for the next year to remain about the same.

The Municipality's adopted General Fund budget for the next fiscal year will decrease by 4.80% to \$599,314. The largest portion of this decrease is due to reductions in general government and public safety, as well as capital outlay functions.

## **CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact Garretson's Finance Office, 705 S. Main Avenue, Garretson, SD 57030-0370.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF NET POSITION**  
**December 31, 2017**

|   | Primary Government         |                             |                     |
|---|----------------------------|-----------------------------|---------------------|
|   | Governmental<br>Activities | Business-Type<br>Activities | Total               |
| <b>ASSETS:</b>                              |                            |                             |                     |
| Cash and Cash Equivalents                   | 1,108,114.41               | 1,475,018.37                | 2,583,132.78        |
| Accounts Receivable, Net                    | 55,554.85                  | 96,069.60                   | 151,624.45          |
| Inventories                                 | 2,301.44                   |                             | 2,301.44            |
| Other Assets                                | 3,477.09                   | 8,684.24                    | 12,161.33           |
| Restricted Assets:                          |                            |                             |                     |
| Cash and Cash Equivalents                   |                            | 209,500.00                  | 209,500.00          |
| Deposits                                    | 27,085.69                  |                             | 27,085.69           |
| Net Pension Asset                           | 181.05                     | 502.48                      | 683.53              |
| Capital Assets:                             |                            |                             |                     |
| Land and Construction Work in Progress      | 159,557.31                 | 138,962.86                  | 298,520.17          |
| Other Capital Assets, Net of Depreciation   | 2,897,049.86               | 3,816,517.93                | 6,713,567.79        |
| <b>TOTAL ASSETS</b>                         | <b>4,253,321.70</b>        | <b>5,745,255.48</b>         | <b>9,998,577.18</b> |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>      |                            |                             |                     |
| Pension Related Deferred Outflows           | 19,035.88                  | 52,830.83                   | 71,866.71           |
| Deferred Charge on Refunding                |                            | 24,151.79                   | 24,151.79           |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b> | <b>19,035.88</b>           | <b>76,982.62</b>            | <b>96,018.50</b>    |
| <b>LIABILITIES :</b>                        |                            |                             |                     |
| Accounts Payable                            | 1,713.96                   | 69,931.67                   | 71,645.63           |
| Other Current Liabilities                   | 16,115.78                  | 106,385.64                  | 122,501.42          |
| Noncurrent Liabilities:                     |                            |                             |                     |
| Due Within One Year                         | 20,250.94                  | 215,177.39                  | 235,428.33          |
| Due in More than One Year                   | 175,295.28                 | 1,408,713.05                | 1,584,008.33        |
| <b>TOTAL LIABILITIES</b>                    | <b>213,375.96</b>          | <b>1,800,207.75</b>         | <b>2,013,583.71</b> |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>       |                            |                             |                     |
| Pension Related Deferred Inflows            | 4,398.46                   | 12,207.20                   | 16,605.66           |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>  | <b>4,398.46</b>            | <b>12,207.20</b>            | <b>16,605.66</b>    |
| <b>NET POSITION:</b>                        |                            |                             |                     |
| Net Investment in Capital Assets            | 2,864,967.68               | 2,342,900.64                | 5,207,868.32        |
| Restricted for:                             |                            |                             |                     |
| Facilities and Promoting the City           | 35,212.41                  |                             | 35,212.41           |
| Debt Service Purposes                       |                            | 209,500.00                  | 209,500.00          |
| SDRS Pension Purposes                       | 14,818.47                  | 41,126.11                   | 55,944.58           |
| Cumulative Insurance Reserve                | 27,085.69                  |                             | 27,085.69           |
| Unrestricted (Deficit)                      | 1,112,498.91               | 1,416,296.40                | 2,528,795.31        |
| <b>TOTAL NET POSITION</b>                   | <b>4,054,583.16</b>        | <b>4,009,823.15</b>         | <b>8,064,406.31</b> |

The notes to the financial statements are an integral part of this statement.



**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2017

| Functions/Programs                              | Program Revenues |                         |  |  | Net (Expense) Revenue and<br>Changes in Net Position |                             |
|---|------------------|-------------------------|--|--|--|-----------------------------|
|   | Expenses         | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Primary Government                                   |                             |
|   |                  |                         |  |  | Governmental<br>Activities                           | Business-Type<br>Activities |
| <b>Primary Government:</b>                      |                  |                         |  |  |  |                             |
| Governmental Activities:                        |                  |                         |  |  |  |                             |
| General Government                              | 196,640.10       | 6,896.13                |  |  | (189,743.97)   | (189,743.97)                |
| Public Safety                                   | 123,386.52       | 705.44                  |  |  | (122,681.08)   | (122,681.08)                |
| Public Works                                    | 88,646.56        | 6,800.33                | 26,790.89                                | 226.84                                 | (54,828.50)  | (54,828.50)                 |
| Health and Welfare                              | 35,167.81        | 534.00                  |  |  | (34,633.81)  | (34,633.81)                 |
| Culture and Recreation                          | 87,466.34        | 28,055.52               | 806.41                                   |  | (58,604.41)  | (58,604.41)                 |
| Conservation and Development                    | 7,321.19         |                         |  |  | (7,321.19)   | (7,321.19)                  |
| *Interest on Long-term Debt                     | 9,051.39         |                         |  |  | (9,051.39)   | (9,051.39)                  |
| **Depreciation Expense - Unallocated            | 115,901.07       |                         |  |  | (115,901.07)   | (115,901.07)                |
| Total Governmental Activities                   | 663,580.98       | 42,991.42               | 27,597.30                                | 226.84                                 | (592,765.42)   | (592,765.42)                |
| Business-type Activities:                       |                  |                         |  |  |  |                             |
| Water   | 232,799.76       | 220,883.45              |  |  | (11,916.31)  | (11,916.31)                 |
| Sewer   | 125,353.32       | 135,193.59              |  |  | 9,840.27   | 9,840.27                    |
| Natural Gas                                     | 441,870.56       | 529,884.96              |  |  | 88,014.40  | 88,014.40                   |
| Total Business-type Activities                  | 800,023.64       | 885,962.00              | 0.00                                     | 0.00                                   | 85,938.36  | 85,938.36                   |
| Total Primary Government                        | 1,463,604.62     | 928,953.42              | 27,597.30                                | 226.84                                 | (592,765.42)   | (506,827.06)                |
| <b>General Revenues:</b>                        |                  |                         |  |  |  |                             |
| Taxes:  |                  |                         |  |  |  |                             |
| Municipality does not have interest expense     |                  |                         |  |  | 319,378.84   | 319,378.84                  |
| ted to the functions presented above. This      |                  |                         |  |  | 393,839.69   | 393,839.69                  |
| ount includes indirect interest expense on      |                  |                         |  |  | 28,284.30  | 28,284.30                   |
| eral long-term debt.                            |                  |                         |  |  | 1,983.41   | 4,282.46                    |
|   |                  |                         |  |  | 45,178.05  | 45,178.05                   |
| reciation expense is not included in the direct |                  |                         |  |  |  |                             |
| anses of the various functions. See Note 8.     |                  |                         |  |  | 788,664.29   | 790,963.34                  |
|   |                  |                         |  |  |  |                             |
|   |                  |                         |  |  | 195,898.87   | 284,136.28                  |
|   |                  |                         |  |  | 3,858,684.29   | 7,780,270.03                |
|   |                  |                         |  |  | 4,054,583.16   | 8,064,406.31                |
|   |                  |                         |  |  | 3,921,585.74   |                             |
|   |                  |                         |  |  | 4,009,823.15   |                             |
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\*The Municipality does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

\*\*Depreciation expense is not included in the direct expenses of the various functions. See Note 8.

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2017**

|   | General<br>Fund   | Second Penny<br>Sales Tax<br>Fund | Liquor,<br>Lodging, &<br>Dining Sales<br>Tax Fund | Total<br>Governmental<br>Funds |
|---|-------------------|-----------------------------------|---|--------------------------------|
| <b>ASSETS:</b>  |                   |                                   |   |                                |
| Cash and Cash Equivalents   | 291,294.55        | 783,042.99                        | 33,776.87   | 1,108,114.41                   |
| Taxes Receivable--Delinquent  | 9,571.76          |                                   |   | 9,571.76                       |
| Accounts Receivable, Net  | 331.05            |                                   |   | 331.05                         |
| Due from State & County Governments   | 26,152.14         | 17,671.02                         | 1,735.54  | 45,558.70                      |
| Interest Receivable   | 61.17             | 32.17                             |   | 93.34                          |
| Inventory of Stores Purchased for Resale                                      | 2,301.44          |                                   |   | 2,301.44                       |
| Deposits - Restricted   | 27,085.69         |                                   |   | 27,085.69                      |
| Prepaid Expenses  | 3,477.09          |                                   |   | 3,477.09                       |
| <b>TOTAL ASSETS</b>   | <u>360,274.89</u> | <u>800,746.18</u>                 | <u>35,512.41</u>                                  | <u>1,196,533.48</u>            |
| <b>LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND FUND BALANCES:</b>      |                   |                                   |   |                                |
| Liabilities:  |                   |                                   |   |                                |
| Accounts Payable  | 1,413.96          |                                   | 300.00  | 1,713.96                       |
| Accrued Wages Payable   | 1,327.82          |                                   |   | 1,327.82                       |
| Accrued Taxes Payable   | 14,787.96         |                                   |   | 14,787.96                      |
| Total Liabilities   | <u>17,529.74</u>  | <u>0.00</u>                       | <u>300.00</u>                                     | <u>17,829.74</u>               |
| Deferred Inflows of Resources:  |                   |                                   |   |                                |
| Unavailable Revenue - Property Taxes  | 9,571.76          |                                   |   | 9,571.76                       |
| Total Deferred Inflows of Resources   | <u>9,571.76</u>   | <u>0.00</u>                       | <u>0.00</u>                                       | <u>9,571.76</u>                |
| Fund Balances:  |                   |                                   |   |                                |
| Nonspendable - Inventory  | 2,301.44          |                                   |   | 2,301.44                       |
| Nonspendable - Prepaids   | 3,477.09          |                                   |   | 3,477.09                       |
| Nonspendable - SD PAAC Reserve  | 27,085.69         |                                   |   | 27,085.69                      |
| Restricted - Facilities and Promoting the City                                |                   |                                   | 35,212.41   | 35,212.41                      |
| Committed - Capital Replacements  | 312,682.46        | 800,746.18                        |   | 1,113,428.64                   |
| Unassigned  | (12,373.29)       |                                   |   | (12,373.29)                    |
| Total Fund Balances   | <u>333,173.39</u> | <u>800,746.18</u>                 | <u>35,212.41</u>                                  | <u>1,169,131.98</u>            |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES AND FUND BALANCES</b> | <u>360,274.89</u> | <u>800,746.18</u>                 | <u>35,512.41</u>                                  | <u>1,196,533.48</u>            |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position**  
**December 31, 2017**

|   |                            |
|---|----------------------------|
| Total Fund Balances - Governmental Funds  | <u>1,169,131.98</u>        |
| Amounts reported for governmental activities in the statement<br>of net position are different because:   |                            |
| Net pension asset reported in governmental<br>activities is not an available financial resource<br>and therefore is not reported in the funds.  | <u>181.05</u>              |
| Capital assets used in governmental activities<br>are not financial resources and therefore are not<br>reported in the funds.   | <u>3,056,607.17</u>        |
| Pension related deferred outflows are components<br>of pension liability (asset) and therefore are not<br>reported in the funds.  | <u>19,035.88</u>           |
| Long-term liabilities, including bonds payable and<br>accrued leave payable, are not due and payable in<br>the current period and therefore are not reported<br>in the funds.   | <u>(195,546.22)</u>        |
| Assets, such as taxes receivable (delinquent)<br>and special assessment receivables (current,<br>delinquent and deferred) are not available to<br>pay for current period expenditures and therefore<br>are deferred in the funds. | <u>9,571.76</u>            |
| Pension related deferred inflows are components<br>of pension liability (asset) and therefore are not<br>reported in the funds.   | <u>(4,398.46)</u>          |
| Net Position - Governmental Activities  | <u><u>4,054,583.16</u></u> |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2017**

|   | General<br>Fund   | Second Penny<br>Sales Tax<br>Fund | Liquor,<br>Lodging &<br>Dining Sales<br>Tax Fund | Total<br>Governmental<br>Funds |
|---|-------------------|-----------------------------------|--|--------------------------------|
| <b>Revenues:</b>                                    |                   |                                   |  |                                |
| Taxes:  |                   |                                   |  |                                |
| General Property Taxes                              | 318,123.54        |                                   |  | 318,123.54                     |
| General Sales and Use Taxes                         | 190,575.66        | 190,575.69                        | 12,688.34  | 393,839.69                     |
| Amusement Taxes                                     | 156.00            |                                   |  | 156.00                         |
| Penalties and Interest on<br>Delinquent Taxes       | 697.83            |                                   |  | 697.83                         |
| Licenses and Permits                                | 6,896.13          |                                   |  | 6,896.13                       |
| Intergovernmental Revenue:                          |                   |                                   |  |                                |
| State Shared Revenue:                               |                   |                                   |  |                                |
| Bank Franchise Tax                                  | 9,529.24          |                                   |  | 9,529.24                       |
| Liquor Tax Reversion                                | 7,575.77          |                                   |  | 7,575.77                       |
| Motor Vehicle Licenses                              | 10,536.66         |                                   |  | 10,536.66                      |
| Liquor License Reversion                            | 11,179.29         |                                   |  | 11,179.29                      |
| Local Government Highway<br>and Bridge Fund         | 13,208.64         |                                   |  | 13,208.64                      |
| Other   | 1,047.14          |                                   |  | 1,047.14                       |
| County Shared Revenue:                              |                   |                                   |  |                                |
| County Wheel Tax                                    | 1,998.45          |                                   |  | 1,998.45                       |
| Charges for Goods and Services:                     |                   |                                   |  |                                |
| Public Safety                                       | 705.44            |                                   |  | 705.44                         |
| Sanitation  | 6,800.33          |                                   |  | 6,800.33                       |
| Health  | 534.00            |                                   |  | 534.00                         |
| Culture and Recreation                              | 27,655.52         |                                   |  | 27,655.52                      |
| Miscellaneous Revenue:                              |                   |                                   |  |                                |
| Investment Earnings                                 | 1,658.08          | 325.33                            |  | 1,983.41                       |
| Rentals   | 400.00            |                                   |  | 400.00                         |
| Special Assessments                                 |                   | 1,362.56                          |  | 1,362.56                       |
| Contributions and Donations<br>from Private Sources | 806.41            |                                   |  | 806.41                         |
| Other   | 5,229.90          |                                   |  | 5,229.90                       |
| <b>Total Revenue</b>                                | <b>615,314.03</b> | <b>192,263.58</b>                 | <b>12,688.34</b>                                 | <b>820,265.95</b>              |
| <b>Expenditures:</b>                                |                   |                                   |  |                                |
| General Government:                                 |                   |                                   |  |                                |
| Legislative   | 3,438.25          |                                   |  | 3,438.25                       |
| Executive   | 26,019.38         |                                   |  | 26,019.38                      |
| Elections   | 24.20             |                                   |  | 24.20                          |
| Financial Administration                            | 57,933.28         |                                   |  | 57,933.28                      |
| Other   | 41,483.59         | 72,917.01                         |  | 114,400.60                     |
| <b>Total General Government</b>                     | <b>128,898.70</b> | <b>72,917.01</b>                  | <b>0.00</b>                                      | <b>201,815.71</b>              |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2017

|   | General<br>Fund | Second Penny<br>Sales Tax<br>Fund | Liquor,<br>Lodging &<br>Dining Sales<br>Tax Fund | Total<br>Governmental<br>Funds |
|---|-----------------|-----------------------------------|--|--------------------------------|
| <b>Expenditures (Continued):</b>                                |                 |                                   |  |                                |
| Public Safety:  |                 |                                   |  |                                |
| Police  | 75,962.99       |                                   |  | 75,962.99                      |
| Fire  | 46,900.80       |                                   |  | 46,900.80                      |
| Protective Inspection   | 1,000.00        |                                   |  | 1,000.00                       |
| Total Public Safety   | 123,863.79      | 0.00                              | 0.00   | 123,863.79                     |
| Public Works:   |                 |                                   |  |                                |
| Highways and Streets  | 65,276.61       | 20,976.68                         |  | 86,253.29                      |
| Sanitation  | 4,076.52        |                                   |  | 4,076.52                       |
| Total Public Works  | 69,353.13       | 20,976.68                         | 0.00   | 90,329.81                      |
| Health and Welfare:   |                 |                                   |  |                                |
| Health  | 167.81          |                                   |  | 167.81                         |
| Ambulance   | 35,000.00       |                                   |  | 35,000.00                      |
| Total Health and Welfare  | 35,167.81       | 0.00                              | 0.00   | 35,167.81                      |
| Culture and Recreation:   |                 |                                   |  |                                |
| Recreation  | 32,477.44       |                                   |  | 32,477.44                      |
| Parks   | 50,910.26       |                                   |  | 50,910.26                      |
| Libraries   | 1,078.64        |                                   |  | 1,078.64                       |
| Museums   | 3,000.00        |                                   |  | 3,000.00                       |
| Total Culture and Recreation                                    | 87,466.34       | 0.00                              | 0.00   | 87,466.34                      |
| Conservation and Development:                                   |                 |                                   |  |                                |
| Economic Development and<br>Assistance (Industrial Development) |                 |                                   | 7,321.19   | 7,321.19                       |
| Total Conservation and Development                              | 0.00            | 0.00                              | 7,321.19   | 7,321.19                       |
| Debt Service  | 17,411.90       | 0.00                              | 0.00   | 17,411.90                      |
| Capital Outlay  | 17,792.67       | 36,507.97                         | 0.00   | 54,300.64                      |
| Total Expenditures  | 479,954.34      | 130,401.66                        | 7,321.19   | 617,677.19                     |
| Excess of Revenue Over (Under)<br>Expenditures                  | 135,359.69      | 61,861.92                         | 5,367.15   | 202,588.76                     |
| <b>Other Financing Sources (Uses):</b>                          |                 |                                   |  |                                |
| Sale of Municipal Property                                      | 59,000.00       |                                   |  | 59,000.00                      |
| Compensation for Loss or<br>Damage to Capital Assets            | 352.31          |                                   |  | 352.31                         |
| Total Other Financing Sources (Uses)                            | 59,352.31       | 0.00                              | 0.00   | 59,352.31                      |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2017**

|                             | <b>General<br/>Fund</b> | <b>Second Penny<br/>Sales Tax<br/>Fund</b> | <b>Liquor,<br/>Lodging &amp;<br/>Dining Sales<br/>Tax Fund</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|-----------------------------|-------------------------|--|--|---|
| Net Change in Fund Balances | 194,712.00              | 61,861.92                                  | 5,367.15   | 261,941.07                              |
| Fund Balance - Beginning    | 138,461.39              | 738,884.26                                 | 29,845.26  | 907,190.91                              |
| FUND BALANCE - ENDING       | 333,173.39              | 800,746.18                                 | 35,212.41  | 1,169,131.98                            |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2017**

|  |                          |
|--|--------------------------|
| Net Change in Fund Balances - Total Governmental Funds   | <u>261,941.07</u>        |
| Amounts reported for governmental activities in the statement of activities are different because:   |                          |
| This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.  | <u>54,300.64</u>         |
| This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.  | <u>(115,901.07)</u>      |
| In the statement of activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.  | <u>(19,404.16)</u>       |
| Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.   | <u>8,360.51</u>          |
| The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available".  | <u>401.47</u>            |
| Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.  | <u>(1,135.72)</u>        |
| Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits. | <u>3,074.74</u>          |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (e.g., pension expense)  | <u>(2.98)</u>            |
| Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.   | <u>4,264.37</u>          |
| Change in Net Position of Governmental Activities  | <u><u>195,898.87</u></u> |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**December 31, 2017**

|   | Enterprise Funds    |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | Water Fund          | Sewer Fund          | Natural Gas Fund    | Totals              |
| <b>ASSETS:</b>                              |                     |                     |                     |                     |
| Current Assets:                             |                     |                     |                     |                     |
| Cash and Cash Equivalents                   | 775,488.77          | 502,484.91          | 197,044.69          | 1,475,018.37        |
| Accounts Receivable, Net                    | 26,729.93           | 19,545.87           | 49,550.48           | 95,826.28           |
| Interest Receivable                         | 142.67              | 62.77               | 37.88               | 243.32              |
| Total Current Assets                        | 802,361.37          | 522,093.55          | 246,633.05          | 1,571,087.97        |
| Noncurrent Assets:                          |                     |                     |                     |                     |
| Restricted Cash and Cash Equivalents        |                     |                     | 209,500.00          | 209,500.00          |
| Unamortized Discounts on Bonds Sold         |                     |                     | 8,684.24            | 8,684.24            |
| Net Pension Asset                           | 167.39              | 157.30              | 177.79              | 502.48              |
| Capital Assets:                             |                     |                     |                     |                     |
| Land  | 3,176.00            | 135,786.86          |                     | 138,962.86          |
| Buildings                                   | 174,444.80          | 533,017.74          |                     | 707,462.54          |
| Improvements Other Than Buildings           | 2,301,904.68        | 1,034,361.93        | 1,747,596.52        | 5,083,863.13        |
| Machinery and Equipment                     | 209,055.42          | 134,101.26          | 141,830.10          | 484,986.78          |
| Less: Accumulated Depreciation              | (1,109,872.94)      | (578,128.94)        | (771,792.64)        | (2,459,794.52)      |
| Total Noncurrent Assets                     | 1,578,875.35        | 1,259,296.15        | 1,335,996.01        | 4,174,167.51        |
| <b>TOTAL ASSETS</b>                         | <b>2,381,236.72</b> | <b>1,781,389.70</b> | <b>1,582,629.06</b> | <b>5,745,255.48</b> |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>      |                     |                     |                     |                     |
| Pension Related Deferred Outflows           | 17,599.24           | 16,538.50           | 18,693.09           | 52,830.83           |
| Deferred Charge on Refunding                |                     |                     | 24,151.79           | 24,151.79           |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b> | <b>17,599.24</b>    | <b>16,538.50</b>    | <b>42,844.88</b>    | <b>76,982.62</b>    |
| <b>LIABILITIES:</b>                         |                     |                     |                     |                     |
| Current Liabilities:                        |                     |                     |                     |                     |
| Accounts Payable                            | 5,434.44            | 519.21              | 63,978.02           | 69,931.67           |
| Accrued Interest Payable                    | 6,547.16            | 2,940.04            | 10,659.12           | 20,146.32           |
| Accrued Wages Payable                       | 801.50              | 801.50              | 801.51              | 2,404.51            |
| Accrued Taxes Payable                       | 105.72              | 105.72              | 5,714.62            | 5,926.06            |
| Customer Deposits                           | 1,132.57            |                     | 2,051.18            | 3,183.75            |
| Revenue Collected in Advance                |                     |                     | 74,725.00           | 74,725.00           |
| Bonds Payable Current:                      |                     |                     |                     |                     |
| Revenue Bonds Payable                       | 33,567.12           | 22,816.72           |                     | 56,383.84           |
| Other Long-Term Debt                        |                     |                     | 154,793.55          | 154,793.55          |
| Total Current Liabilities                   | 47,588.51           | 27,183.19           | 312,723.00          | 387,494.70          |
| Noncurrent Liabilities:                     |                     |                     |                     |                     |
| Bonds Payable:                              |                     |                     |                     |                     |
| Revenue                                     | 716,734.88          | 340,028.77          |                     | 1,056,763.65        |
| Accrued Leave Payable                       | 3,701.78            | 3,701.78            | 3,906.73            | 11,310.29           |
| Other Long-Term Liabilities                 |                     |                     | 344,639.11          | 344,639.11          |
| Total Noncurrent Liabilities                | 720,436.66          | 343,730.55          | 348,545.84          | 1,412,713.05        |
| <b>TOTAL LIABILITIES</b>                    | <b>768,025.17</b>   | <b>370,913.74</b>   | <b>661,268.84</b>   | <b>1,800,207.75</b> |

The notes to the financial statements are an integral part of this statement.



**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**December 31, 2017**

|  | <b>Enterprise Funds</b> |                       |                             |                     |
|--|-------------------------|-----------------------|-----------------------------|---------------------|
|  | <b>Water<br/>Fund</b>   | <b>Sewer<br/>Fund</b> | <b>Natural Gas<br/>Fund</b> | <b>Totals</b>       |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>          |                         |                       |                             |                     |
| Pension Related Deferred Inflows               | 4,066.52                | 3,821.42              | 4,319.26                    | 12,207.20           |
| <b>TOTAL DEFERRED INFLOWS OF<br/>RESOURCES</b> | <b>4,066.52</b>         | <b>3,821.42</b>       | <b>4,319.26</b>             | <b>12,207.20</b>    |
| <b>NET POSITION:</b>                           |                         |                       |                             |                     |
| Net Investment in Capital Assets               | 828,405.96              | 896,293.36            | 618,201.32                  | 2,342,900.64        |
| Restricted for:                                |                         |                       |                             |                     |
| Revenue Bond Debt Service                      |                         |                       | 209,500.00                  | 209,500.00          |
| SDRS Pension Purposes                          | 13,700.11               | 12,874.38             | 14,551.62                   | 41,126.11           |
| Unrestricted                                   | 784,638.20              | 514,025.30            | 117,632.90                  | 1,416,296.40        |
| <b>TOTAL NET POSITION</b>                      | <b>1,626,744.27</b>     | <b>1,423,193.04</b>   | <b>959,885.84</b>           | <b>4,009,823.15</b> |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2017**

|  | Enterprise Funds    |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | Water<br>Fund       | Sewer<br>Fund       | Natural Gas<br>Fund | Totals              |
| <b>Operating Revenue:</b>              |                     |                     |                     |                     |
| Charges for Goods and Services         | 220,883.45          | 135,193.59          | 529,884.96          | 885,962.00          |
| Total Operating Revenue                | <u>220,883.45</u>   | <u>135,193.59</u>   | <u>529,884.96</u>   | <u>885,962.00</u>   |
| <b>Operating Expenses:</b>             |                     |                     |                     |                     |
| Personal Services                      | 42,715.03           | 39,739.09           | 44,176.26           | 126,630.38          |
| Other Current Expense                  | 46,831.10           | 37,717.17           | 38,619.19           | 123,167.46          |
| Materials (Cost of Goods Sold)         | 60,388.70           |                     | 277,460.31          | 337,849.01          |
| Depreciation                           | 56,175.00           | 35,833.05           | 45,063.64           | 137,071.69          |
| Total Operating Expenses               | <u>206,109.83</u>   | <u>113,289.31</u>   | <u>405,319.40</u>   | <u>724,718.54</u>   |
| Operating Income (Loss)                | <u>14,773.62</u>    | <u>21,904.28</u>    | <u>124,565.56</u>   | <u>161,243.46</u>   |
| <b>Nonoperating Revenue (Expense):</b> |                     |                     |                     |                     |
| Investment Earnings                    | 1,450.48            | 220.07              | 628.50              | 2,299.05            |
| Interest Expense                       | (26,689.93)         | (12,064.01)         | (36,551.16)         | (75,305.10)         |
| Total Nonoperating Revenue (Expense)   | <u>(25,239.45)</u>  | <u>(11,843.94)</u>  | <u>(35,922.66)</u>  | <u>(73,006.05)</u>  |
| Change in Net Position                 | <u>(10,465.83)</u>  | <u>10,060.34</u>    | <u>88,642.90</u>    | <u>88,237.41</u>    |
| Net Position - Beginning               | <u>1,637,210.10</u> | <u>1,413,132.70</u> | <u>871,242.94</u>   | <u>3,921,585.74</u> |
| NET POSITION - ENDING                  | <u>1,626,744.27</u> | <u>1,423,193.04</u> | <u>959,885.84</u>   | <u>4,009,823.15</u> |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2017**

|  | <b>Enterprise Funds</b> |                       |                             |               |
|--|-------------------------|-----------------------|-----------------------------|---------------|
|  | <b>Water<br/>Fund</b>   | <b>Sewer<br/>Fund</b> | <b>Natural Gas<br/>Fund</b> | <b>Totals</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                     |                         |                       |                             |               |
| Cash Receipts from Customers                                     | 216,725.56              | 130,206.14            | 519,552.23                  | 866,483.93    |
| Cash Payments to Employees for Services                          | (46,467.15)             | (44,014.29)           | (49,841.74)                 | (140,323.18)  |
| Cash Payments to Suppliers of Goods and Services                 | (105,229.17)            | (37,365.73)           | (308,355.73)                | (450,950.63)  |
| Net Cash Provided (Used) by Operating Activities                 | 65,029.24               | 48,826.12             | 161,354.76                  | 275,210.12    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b> |                         |                       |                             |               |
| Purchase of Capital Assets                                       |                         | (104,029.00)          | (18,200.00)                 | (122,229.00)  |
| Principal Paid on Capital Debt                                   | (32,417.52)             | (22,090.00)           | (149,945.49)                | (204,453.01)  |
| Interest Paid on Capital Debt                                    | (26,972.80)             | (12,243.00)           | (29,215.97)                 | (68,431.77)   |
| Net Cash (Used) by Capital and Related Financing Activities      | (59,390.32)             | (138,362.00)          | (197,361.46)                | (395,113.78)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                     |                         |                       |                             |               |
| Cash Received for Interest                                       | 1,450.48                | 219.97                | 628.50                      | 2,298.95      |
| Net Cash Provided by Investing Activities                        | 1,450.48                | 219.97                | 628.50                      | 2,298.95      |
| Net Increase (Decrease) in Cash and Cash Equivalents             | 7,089.40                | (89,315.91)           | (35,378.20)                 | (117,604.71)  |
| Balances - Beginning   | 768,399.37              | 591,800.82            | 441,922.89                  | 1,802,123.08  |
| Balances - Ending  | 775,488.77              | 502,484.91            | 406,544.69                  | 1,684,518.37  |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2017**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

|  | <b>Enterprise Funds</b> |                   |                         | <b>Totals</b> |
|--|-------------------------|-------------------|-------------------------|---------------|
|  | <b>Water Fund</b>       | <b>Sewer Fund</b> | <b>Natural Gas Fund</b> |               |
| Operating Income (Loss)  | 14,773.62               | 21,904.28         | 124,565.56              | 161,243.46    |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: |                         |                   |                         |               |
| Depreciation Expense   | 56,175.00               | 35,833.05         | 45,063.64               | 137,071.69    |
| (Increase) decrease in Receivables   | (4,160.56)              | (4,987.45)        | (1,623.58)              | (10,771.59)   |
| (Increase) decrease in Net Pension Asset   | (167.39)                | (157.30)          | (177.79)                | (502.48)      |
| (Increase) decrease in Pension Related Deferred Outflows                                       | (775.89)                | (2,577.57)        | (6,414.98)              | (9,768.44)    |
| (Decrease) increase in Accounts and Other Payables   | 1,990.63                | 351.44            | 7,723.77                | 10,065.84     |
| (Decrease) increase in Accrued Wages Payable   | 907.22                  | 907.22            | 1,998.02                | 3,812.46      |
| (Decrease) increase in Accrued Leave Payable   | 1,113.41                | 1,113.40          | 1,102.53                | 3,329.34      |
| (Decrease) increase in Pension Related Deferred Inflows  | 2,791.76                | 2,763.56          | 3,388.91                | 8,944.23      |
| (Decrease) increase in Net Pension Liability   | (7,621.23)              | (6,324.51)        | (5,562.17)              | (19,507.91)   |
| (Decrease) increase in Unearned Revenue  |                         |                   | (8,685.89)              | (8,685.89)    |
| (Decrease) increase in Customer Deposits   | 2.67                    |                   | (23.26)                 | (20.59)       |
| Net Cash Provided (Used) by Operating Activities   | 65,029.24               | 48,826.12         | 161,354.76              | 275,210.12    |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF NET POSITION**  
**December 31, 2016**

|   | <b>Primary Government</b>          |                                     |                     |
|---|------------------------------------|-------------------------------------|---------------------|
|   | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>        |
| <b>ASSETS:</b>                              |                                    |                                     |                     |
| Cash and Cash Equivalents                   | 837,683.85                         | 1,592,623.08                        | 2,430,306.93        |
| Accounts Receivable, Net                    | 50,878.00                          | 85,297.91                           | 136,175.91          |
| Inventories                                 | 6,353.37                           |                                     | 6,353.37            |
| Other Assets                                | 5,743.66                           | 10,949.70                           | 16,693.36           |
| Restricted Assets:                          |                                    |                                     |                     |
| Cash and Cash Equivalents                   |                                    | 209,500.00                          | 209,500.00          |
| Deposits                                    | 27,085.69                          |                                     | 27,085.69           |
| Capital Assets:                             |                                    |                                     |                     |
| Land and Construction Work in Progress      | 172,643.50                         | 138,962.86                          | 311,606.36          |
| Other Capital Assets, Net of Depreciation   | 2,964,968.26                       | 3,831,360.62                        | 6,796,328.88        |
| <b>TOTAL ASSETS</b>                         | <b>4,065,356.33</b>                | <b>5,868,694.17</b>                 | <b>9,934,050.50</b> |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>      |                                    |                                     |                     |
| Pension Related Deferred Outflows           | 22,404.10                          | 43,062.39                           | 65,466.49           |
| Deferred Charge on Refunding                |                                    | 30,452.25                           | 30,452.25           |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b> | <b>22,404.10</b>                   | <b>73,514.64</b>                    | <b>95,918.74</b>    |
| <b>LIABILITIES :</b>                        |                                    |                                     |                     |
| Accounts Payable                            | 3,488.82                           | 59,865.83                           | 63,354.65           |
| Other Current Liabilities                   | 6,758.83                           | 112,972.25                          | 119,731.08          |
| Noncurrent Liabilities:                     |                                    |                                     |                     |
| Due Within One Year                         | 12,360.51                          | 205,640.94                          | 218,001.45          |
| Due in More than One Year                   | 194,620.96                         | 1,619,373.17                        | 1,813,994.13        |
| Net Pension Liability                       | 10,149.39                          | 19,507.91                           | 29,657.30           |
| <b>TOTAL LIABILITIES</b>                    | <b>227,378.51</b>                  | <b>2,017,360.10</b>                 | <b>2,244,738.61</b> |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>       |                                    |                                     |                     |
| Pension Related Deferred Inflows            | 1,697.63                           | 3,262.97                            | 4,960.60            |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>  | <b>1,697.63</b>                    | <b>3,262.97</b>                     | <b>4,960.60</b>     |
| <b>NET POSITION:</b>                        |                                    |                                     |                     |
| Net Investment in Capital Assets            | 2,937,611.76                       | 2,373,740.02                        | 5,311,351.78        |
| Restricted for:                             |                                    |                                     |                     |
| Facilities and Promoting the City           | 29,845.26                          |                                     | 29,845.26           |
| Debt Service Purposes                       |                                    | 209,500.00                          | 209,500.00          |
| SDRS Pension Purposes                       | 10,557.08                          | 20,068.09                           | 30,625.17           |
| Cumulative Insurance Reserve                | 27,085.69                          |                                     | 27,085.69           |
| Unrestricted (Deficit)                      | 853,584.50                         | 1,318,277.63                        | 2,171,862.13        |
| <b>TOTAL NET POSITION</b>                   | <b>3,858,684.29</b>                | <b>3,921,585.74</b>                 | <b>7,780,270.03</b> |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2016

| Functions/Programs                   | Program Revenues |                      |                                    | Net (Expense) Revenue and Changes in Net Position |                         |                          |
|--------------------------------------|------------------|----------------------|------------------------------------|---|-------------------------|--------------------------|
|                                      | Expenses         | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions                  | Primary Government      |                          |
|                                      |                  |                      |                                    |   | Governmental Activities | Business-Type Activities |
| <b>Primary Government:</b>           |                  |                      |                                    |   |                         |                          |
| Governmental Activities:             |                  |                      |                                    |   |                         |                          |
| General Government                   | 210,144.00       | 4,001.50             |                                    |   | (206,142.50)            | (206,142.50)             |
| Public Safety                        | 108,580.37       | 225.00               |                                    |   | (108,355.37)            | (108,355.37)             |
| Public Works                         | 63,849.62        | 5,615.09             | 28,458.79                          |   | (29,775.74)             | (29,775.74)              |
| Health and Welfare                   | 39,476.13        |                      | 1,500.00                           |   | (37,976.13)             | (37,976.13)              |
| Culture and Recreation               | 116,067.18       | 5,027.93             | 10,859.63                          | 525,073.87  | 424,894.25              | 424,894.25               |
| Conservation and Development         | 15,533.02        |                      |                                    |   | (15,533.02)             | (15,533.02)              |
| *Interest on Long-term Debt          | 4,300.27         |                      |                                    |   | (4,300.27)              | (4,300.27)               |
| **Depreciation Expense - Unallocated | 106,535.15       |                      |                                    |   | (106,535.15)            | (106,535.15)             |
| Total Governmental Activities        | 664,485.74       | 14,869.52            | 40,818.42                          | 525,073.87  | (83,723.93)             | (83,723.93)              |
| Business-type Activities:            |                  |                      |                                    |   |                         |                          |
| Water                                | 208,176.00       | 192,499.67           |                                    |   | (15,676.33)             | (15,676.33)              |
| Sewer                                | 85,348.74        | 108,385.53           |                                    |   | 23,036.79               | 23,036.79                |
| Natural Gas                          | 371,830.08       | 536,131.69           |                                    |   | 164,301.61              | 164,301.61               |
| Total Business-type Activities       | 665,354.82       | 837,016.89           | 0.00                               | 0.00  | 171,662.07              | 171,662.07               |
| Total Primary Government             | 1,329,840.56     | 851,886.41           | 40,818.42                          | 525,073.87  | (83,723.93)             | 87,938.14                |
| <b>General Revenues:</b>             |                  |                      |                                    |   |                         |                          |
| Taxes:                               |                  |                      |                                    |   |                         |                          |
| Property Taxes                       |                  |                      |                                    |   | 315,418.30              | 315,418.30               |
| Sales Taxes                          |                  |                      |                                    |   | 378,205.11              | 378,205.11               |
| State Shared Revenues                |                  |                      |                                    |   | 14,381.14               | 14,381.14                |
| Unrestricted Investment Earnings     |                  |                      |                                    |   | 1,526.37                | 3,827.39                 |
| Miscellaneous Revenue                |                  |                      |                                    |   | 29,106.89               | 29,106.89                |
| Total General Revenues               |                  |                      |                                    |   | 738,637.81              | 740,938.83               |
| Change in Net Position               |                  |                      |                                    |   | 654,913.88              | 828,876.97               |
| Net Position - Beginning             |                  |                      |                                    |   | 3,203,770.41            | 6,951,393.06             |
| NET POSITION - ENDING                |                  |                      |                                    |   | 3,858,684.29            | 7,780,270.03             |

\*The Municipality does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

\*\*Depreciation expense is not included in the direct expenses of the various functions. See Note 8.

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2016**

|   | General<br>Fund   | Second Penny<br>Sales Tax<br>Fund | Liquor,<br>Lodging, &<br>Dining Sales<br>Tax Fund | Total<br>Governmental<br>Funds |
|---|-------------------|-----------------------------------|---|--------------------------------|
| <b>ASSETS:</b>  |                   |                                   |   |                                |
| Cash and Cash Equivalents   | 85,902.56         | 723,523.60                        | 28,257.69   | 837,683.85                     |
| Taxes Receivable--Delinquent  | 9,170.29          |                                   |   | 9,170.29                       |
| Accounts Receivable, Net  | 331.05            |                                   |   | 331.05                         |
| Special Assessments Receivable--Current                                       |                   | 400.00                            |   | 400.00                         |
| Special Assessments Receivable--Delinquent                                    |                   | 735.72                            |   | 735.72                         |
| Due from State & County Governments   | 22,627.70         | 15,328.58                         | 2,191.41  | 40,147.69                      |
| Interest Receivable   | 61.17             | 32.08                             |   | 93.25                          |
| Inventory of Stores Purchased for Resale                                      | 6,353.37          |                                   |   | 6,353.37                       |
| Deposits - Restricted   | 27,085.69         |                                   |   | 27,085.69                      |
| Prepaid Expenses  | 5,743.66          |                                   |   | 5,743.66                       |
| <b>TOTAL ASSETS</b>   | <b>157,275.49</b> | <b>740,019.98</b>                 | <b>30,449.10</b>                                  | <b>927,744.57</b>              |
| <b>LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND FUND BALANCES:</b>      |                   |                                   |   |                                |
| Liabilities:  |                   |                                   |   |                                |
| Accounts Payable  | 2,884.98          |                                   | 603.84  | 3,488.82                       |
| Accrued Taxes Payable   | 6,758.83          |                                   |   | 6,758.83                       |
| Total Liabilities   | 9,643.81          | 0.00                              | 603.84  | 10,247.65                      |
| Deferred Inflows of Resources:  |                   |                                   |   |                                |
| Unavailable Revenue - Property Taxes  | 9,170.29          |                                   |   | 9,170.29                       |
| Unavailable Revenue - Special Assessments                                     |                   | 1,135.72                          |   | 1,135.72                       |
| Total Deferred Inflows of Resources   | 9,170.29          | 1,135.72                          | 0.00  | 10,306.01                      |
| Fund Balances:  |                   |                                   |   |                                |
| Nonspendable - Inventory  | 6,353.37          |                                   |   | 6,353.37                       |
| Nonspendable - Prepaids   | 5,743.66          |                                   |   | 5,743.66                       |
| Nonspendable - SD PAAC Reserve  | 27,085.69         |                                   |   | 27,085.69                      |
| Restricted - Facilities and Promoting the City                                |                   |                                   | 29,845.26   | 29,845.26                      |
| Committed - Capital Replacements  | 262,313.21        | 738,884.26                        |   | 1,001,197.47                   |
| Unassigned  | (163,034.54)      |                                   |   | (163,034.54)                   |
| Total Fund Balances   | 138,461.39        | 738,884.26                        | 29,845.26   | 907,190.91                     |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES AND FUND BALANCES</b> | <b>157,275.49</b> | <b>740,019.98</b>                 | <b>30,449.10</b>                                  | <b>927,744.57</b>              |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position**  
**December 31, 2016**

|   |                            |
|---|----------------------------|
| Total Fund Balances - Governmental Funds  | <u>907,190.91</u>          |
| Amounts reported for governmental activities in the statement<br>of net position are different because:   |                            |
| Capital assets used in governmental activities<br>are not financial resources and therefore are not<br>reported in the funds.   | <u>3,137,611.76</u>        |
| Pension related deferred outflows are components<br>of pension liability (asset) and therefore are not<br>reported in the funds.  | <u>22,404.10</u>           |
| Long-term liabilities, including bonds payable and<br>accrued leave payable, are not due and payable in<br>the current period and therefore are not reported<br>in the funds.   | <u>(206,981.47)</u>        |
| Assets, such as taxes receivable (delinquent)<br>and special assessment receivables (current,<br>delinquent and deferred) are not available to<br>pay for current period expenditures and therefore<br>are deferred in the funds. | <u>10,306.01</u>           |
| Net pension liability reported in governmental<br>activities is not due and payable in the current period<br>and therefore is not reported in the funds.  | <u>(10,149.39)</u>         |
| Pension related deferred inflows are components<br>of pension liability (asset) and therefore are not<br>reported in the funds.   | <u>(1,697.63)</u>          |
| Net Position - Governmental Activities  | <u><u>3,858,684.29</u></u> |

The notes to the financial statements are an integral part of this statement.



**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2016**

|   | <b>General<br/>Fund</b> | <b>Second Penny<br/>Sales Tax<br/>Fund</b> | <b>Liquor,<br/>Lodging &amp;<br/>Dining Sales<br/>Tax Fund</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---|-------------------------|--|--|---|
| <b>Revenues:</b>                                    |                         |  |  |   |
| <b>Taxes:</b>                                       |                         |  |  |   |
| General Property Taxes                              | 313,999.95              |  |  | 313,999.95                              |
| General Sales and Use Taxes                         | 181,810.18              | 181,810.12                                 | 14,584.81  | 378,205.11                              |
| Amusement Taxes                                     | 132.00                  |  |  | 132.00                                  |
| Penalties and Interest on<br>Delinquent Taxes       | 1,156.13                |  |  | 1,156.13                                |
| Licenses and Permits                                | 4,001.50                |  |  | 4,001.50                                |
| <b>Intergovernmental Revenue:</b>                   |                         |  |  |   |
| Federal Grants                                      | 477,339.88              |  |  | 477,339.88                              |
| State Grants  | 49,233.99               |  |  | 49,233.99                               |
| State Shared Revenue:                               |                         |  |  |   |
| Bank Franchise Tax                                  | 4,377.00                |  |  | 4,377.00                                |
| Liquor Tax Reversion                                | 7,604.14                |  |  | 7,604.14                                |
| Motor Vehicle Licenses                              | 11,051.34               |  |  | 11,051.34                               |
| Liquor License Reversion                            | 2,400.00                |  |  | 2,400.00                                |
| Local Government Highway<br>and Bridge Fund         | 14,239.22               |  |  | 14,239.22                               |
| Other   | 717.74                  |  |  | 717.74                                  |
| County Shared Revenue:                              |                         |  |  |   |
| County Wheel Tax                                    | 2,033.14                |  |  | 2,033.14                                |
| <b>Charges for Goods and Services:</b>              |                         |  |  |   |
| Public Safety                                       | 125.00                  |  |  | 125.00                                  |
| Sanitation  | 5,615.09                |  |  | 5,615.09                                |
| Culture and Recreation                              | 5,027.93                |  |  | 5,027.93                                |
| <b>Fines and Forfeits:</b>                          |                         |  |  |   |
| Other   | 100.00                  |  |  | 100.00                                  |
| <b>Miscellaneous Revenue:</b>                       |                         |  |  |   |
| Investment Earnings                                 | 1,201.12                | 325.25                                     |  | 1,526.37                                |
| Special Assessments                                 |                         | 1,592.05                                   |  | 1,592.05                                |
| Contributions and Donations<br>from Private Sources | 10,859.63               |  |  | 10,859.63                               |
| Other   | 8,564.29                |  |  | 8,564.29                                |
| <b>Total Revenue</b>                                | 1,101,589.27            | 183,727.42                                 | 14,584.81  | 1,299,901.50                            |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2016**

|   | General<br>Fund | Second Penny<br>Sales Tax<br>Fund | Liquor,<br>Lodging &<br>Dining Sales<br>Tax Fund | Total<br>Governmental<br>Funds |
|---|-----------------|-----------------------------------|--|--------------------------------|
| <b>Expenditures:</b>  |                 |                                   |  |                                |
| General Government:   |                 |                                   |  |                                |
| Legislative   | 2,987.26        |                                   |  | 2,987.26                       |
| Executive   | 15,592.12       |                                   |  | 15,592.12                      |
| Financial Administration  | 115,299.78      |                                   |  | 115,299.78                     |
| Other   | 39,324.94       | 28,770.68                         | 1,071.42   | 69,167.04                      |
| Total General Government  | 173,204.10      | 28,770.68                         | 1,071.42   | 203,046.20                     |
| Public Safety:  |                 |                                   |  |                                |
| Police  | 73,994.06       |                                   |  | 73,994.06                      |
| Fire  | 33,975.26       |                                   |  | 33,975.26                      |
| Protective Inspection   | 611.05          |                                   |  | 611.05                         |
| Total Public Safety   | 108,580.37      | 0.00                              | 0.00   | 108,580.37                     |
| Public Works:   |                 |                                   |  |                                |
| Highways and Streets  | 59,062.74       | 404.13                            |  | 59,466.87                      |
| Sanitation  | 2,407.80        |                                   |  | 2,407.80                       |
| Total Public Works  | 61,470.54       | 404.13                            | 0.00   | 61,874.67                      |
| Health and Welfare:   |                 |                                   |  |                                |
| Health  | 353.34          |                                   |  | 353.34                         |
| Ambulance   | 39,122.79       |                                   |  | 39,122.79                      |
| Total Health and Welfare  | 39,476.13       | 0.00                              | 0.00   | 39,476.13                      |
| Culture and Recreation:   |                 |                                   |  |                                |
| Recreation  | 46,023.96       |                                   |  | 46,023.96                      |
| Parks   | 67,116.23       |                                   |  | 67,116.23                      |
| Libraries   | 1,377.86        |                                   |  | 1,377.86                       |
| Museums   | 1,000.00        |                                   |  | 1,000.00                       |
| Total Culture and Recreation                                    | 115,518.05      | 0.00                              | 0.00   | 115,518.05                     |
| Conservation and Development:                                   |                 |                                   |  |                                |
| Economic Development and<br>Assistance (Industrial Development) |                 |                                   | 15,533.02  | 15,533.02                      |
| Total Conservation and Development                              | 0.00            | 0.00                              | 15,533.02  | 15,533.02                      |
| Debt Service  | 4,300.27        | 0.00                              | 0.00   | 4,300.27                       |
| Capital Outlay  | 894,093.41      | 95,439.23                         | 0.00   | 989,532.64                     |
| Total Expenditures  | 1,396,642.87    | 124,614.04                        | 16,604.44  | 1,537,861.35                   |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2016**

|  | <b>General<br/>Fund</b> | <b>Second Penny<br/>Sales Tax<br/>Fund</b> | <b>Liquor,<br/>Lodging &amp;<br/>Dining Sales<br/>Tax Fund</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|-------------------------|--|--|---|
| Excess of Revenue Over (Under)<br>Expenditures       | (295,053.60)            | 59,113.38                                  | (2,019.63)   | (237,959.85)                            |
| <b>Other Financing Sources (Uses):</b>               |                         |  |  |   |
| Proceeds of General Long-Term<br>Debt Issued         | 200,000.00              |  |  | 200,000.00                              |
| Sale of Municipal Property                           | 11,500.00               |  |  | 11,500.00                               |
| Compensation for Loss or<br>Damage to Capital Assets | 19,602.60               |  |  | 19,602.60                               |
| Total Other Financing Sources (Uses)                 | 231,102.60              | 0.00                                       | 0.00   | 231,102.60                              |
| Net Change in Fund Balances                          | (63,951.00)             | 59,113.38                                  | (2,019.63)   | (6,857.25)                              |
| Fund Balance - Beginning                             | 202,412.39              | 679,770.88                                 | 31,864.89  | 914,048.16                              |
| FUND BALANCE - ENDING                                | 138,461.39              | 738,884.26                                 | 29,845.26  | 907,190.91                              |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2016**

|  |                          |
|--|--------------------------|
| Net Change in Fund Balances - Total Governmental Funds   | <u>(6,857.25)</u>        |
| Amounts reported for governmental activities in the statement of activities are different because:   |                          |
| This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.  | <u>989,532.64</u>        |
| This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.  | <u>(106,535.15)</u>      |
| In the statement of activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.  | <u>(10,560.00)</u>       |
| The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government-wide statements.   | <u>(200,000.00)</u>      |
| The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available".  | <u>130.22</u>            |
| Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.  | <u>(1,174.70)</u>        |
| Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits. | <u>12.02</u>             |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (e.g., pension expense)  | <u>5.46</u>              |
| Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.   | <u>(9,639.36)</u>        |
| Change in Net Position of Governmental Activities  | <u><u>654,913.88</u></u> |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**December 31, 2016**

|   | <b>Enterprise Funds</b> |                     |                         |                     |
|---|-------------------------|---------------------|-------------------------|---------------------|
|   | <b>Water Fund</b>       | <b>Sewer Fund</b>   | <b>Natural Gas Fund</b> | <b>Totals</b>       |
| <b>ASSETS:</b>                              |                         |                     |                         |                     |
| Current Assets:                             |                         |                     |                         |                     |
| Cash and Cash Equivalents                   | 768,399.37              | 591,800.82          | 232,422.89              | 1,592,623.08        |
| Accounts Receivable, Net                    | 22,569.37               | 14,558.42           | 47,926.90               | 85,054.69           |
| Interest Receivable                         | 142.67                  | 62.67               | 37.88                   | 243.22              |
| Total Current Assets                        | 791,111.41              | 606,421.91          | 280,387.67              | 1,677,920.99        |
| Noncurrent Assets:                          |                         |                     |                         |                     |
| Restricted Cash and Cash Equivalents        |                         |                     | 209,500.00              | 209,500.00          |
| Unamortized Discounts on Bonds Sold         |                         |                     | 10,949.70               | 10,949.70           |
| Capital Assets:                             |                         |                     |                         |                     |
| Land  | 3,176.00                | 135,786.86          |                         | 138,962.86          |
| Buildings                                   | 174,444.80              | 533,017.74          |                         | 707,462.54          |
| Improvements Other Than Buildings           | 2,301,904.68            | 930,332.93          | 1,747,596.52            | 4,979,834.13        |
| Machinery and Equipment                     | 209,055.42              | 134,101.26          | 123,630.10              | 466,786.78          |
| Less: Accumulated Depreciation              | (1,053,697.94)          | (542,295.89)        | (726,729.00)            | (2,322,722.83)      |
| Total Noncurrent Assets                     | 1,634,882.96            | 1,190,942.90        | 1,364,947.32            | 4,190,773.18        |
| <b>TOTAL ASSETS</b>                         | <b>2,425,994.37</b>     | <b>1,797,364.81</b> | <b>1,645,334.99</b>     | <b>5,868,694.17</b> |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>      |                         |                     |                         |                     |
| Pension Related Deferred Outflows           | 16,823.35               | 13,960.93           | 12,278.11               | 43,062.39           |
| Deferred Charge on Refunding                |                         |                     | 30,452.25               | 30,452.25           |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b> | <b>16,823.35</b>        | <b>13,960.93</b>    | <b>42,730.36</b>        | <b>73,514.64</b>    |
| <b>LIABILITIES:</b>                         |                         |                     |                         |                     |
| Current Liabilities:                        |                         |                     |                         |                     |
| Accounts Payable                            | 3,443.81                | 167.77              | 56,254.25               | 59,865.83           |
| Accrued Interest Payable                    | 6,830.03                | 3,119.03            | 11,889.85               | 21,838.91           |
| Accrued Taxes Payable                       |                         |                     | 4,518.11                | 4,518.11            |
| Customer Deposits                           | 1,129.90                |                     | 2,074.44                | 3,204.34            |
| Revenue Collected in Advance                |                         |                     | 83,410.89               | 83,410.89           |
| Bonds Payable Current:                      |                         |                     |                         |                     |
| Revenue Bonds Payable                       | 32,417.52               | 22,090.00           |                         | 54,507.52           |
| Other Long-Term Debt                        |                         |                     | 147,133.42              | 147,133.42          |
| Total Current Liabilities                   | 43,821.26               | 25,376.80           | 305,280.96              | 374,479.02          |
| Noncurrent Liabilities:                     |                         |                     |                         |                     |
| Bonds Payable:                              |                         |                     |                         |                     |
| Revenue                                     | 750,302.00              | 362,845.49          |                         | 1,113,147.49        |
| Accrued Leave Payable                       | 2,588.37                | 2,588.38            | 2,804.20                | 7,980.95            |
| Net Pension Liability                       | 7,621.23                | 6,324.51            | 5,562.17                | 19,507.91           |
| Other Long-Term Liabilities                 |                         |                     | 502,244.73              | 502,244.73          |
| Total Noncurrent Liabilities                | 760,511.60              | 371,758.38          | 510,611.10              | 1,642,881.08        |
| <b>TOTAL LIABILITIES</b>                    | <b>804,332.86</b>       | <b>397,135.18</b>   | <b>815,892.06</b>       | <b>2,017,360.10</b> |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**December 31, 2016**

|  | <b>Enterprise Funds</b> |                       |                             |                     |
|--|-------------------------|-----------------------|-----------------------------|---------------------|
|  | <b>Water<br/>Fund</b>   | <b>Sewer<br/>Fund</b> | <b>Natural Gas<br/>Fund</b> | <b>Totals</b>       |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>          |                         |                       |                             |                     |
| Pension Related Deferred Inflows               | 1,274.76                | 1,057.86              | 930.35                      | 3,262.97            |
| <b>TOTAL DEFERRED INFLOWS OF<br/>RESOURCES</b> | <b>1,274.76</b>         | <b>1,057.86</b>       | <b>930.35</b>               | <b>3,262.97</b>     |
| <b>NET POSITION:</b>                           |                         |                       |                             |                     |
| Net Investment in Capital Assets               | 852,163.44              | 806,007.41            | 715,569.17                  | 2,373,740.02        |
| Restricted for:                                |                         |                       |                             |                     |
| Revenue Bond Debt Service                      |                         |                       | 209,500.00                  | 209,500.00          |
| SDRS Pension Purposes                          | 7,927.36                | 6,578.56              | 5,562.17                    | 20,068.09           |
| Unrestricted                                   | 777,119.30              | 600,546.73            | (59,388.40)                 | 1,318,277.63        |
| <b>TOTAL NET POSITION</b>                      | <b>1,637,210.10</b>     | <b>1,413,132.70</b>   | <b>871,242.94</b>           | <b>3,921,585.74</b> |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2016**

|  | <b>Enterprise Funds</b>    |                            |                             |                            |
|--|----------------------------|----------------------------|-----------------------------|----------------------------|
|  | <b>Water<br/>Fund</b>      | <b>Sewer<br/>Fund</b>      | <b>Natural Gas<br/>Fund</b> | <b>Totals</b>              |
| <b>Operating Revenue:</b>              |                            |                            |                             |                            |
| Charges for Goods and Services         | 192,499.67                 | 108,385.53                 | 536,131.69                  | 837,016.89                 |
| Total Operating Revenue                | <u>192,499.67</u>          | <u>108,385.53</u>          | <u>536,131.69</u>           | <u>837,016.89</u>          |
| <b>Operating Expenses:</b>             |                            |                            |                             |                            |
| Personal Services                      | 35,508.73                  | 32,020.95                  | 33,869.97                   | 101,399.65                 |
| Other Current Expense                  | 23,996.55                  | 12,110.13                  | 26,831.37                   | 62,938.05                  |
| Materials (Cost of Goods Sold)         | 63,887.10                  |                            | 230,885.64                  | 294,772.74                 |
| Depreciation                           | 56,973.80                  | 28,444.38                  | 37,951.88                   | 123,370.06                 |
| Total Operating Expenses               | <u>180,366.18</u>          | <u>72,575.46</u>           | <u>329,538.86</u>           | <u>582,480.50</u>          |
| Operating Income (Loss)                | <u>12,133.49</u>           | <u>35,810.07</u>           | <u>206,592.83</u>           | <u>254,536.39</u>          |
| <b>Nonoperating Revenue (Expense):</b> |                            |                            |                             |                            |
| Investment Earnings                    | 1,450.48                   | 220.32                     | 630.22                      | 2,301.02                   |
| Interest Expense                       | <u>(27,809.82)</u>         | <u>(12,773.28)</u>         | <u>(42,291.22)</u>          | <u>(82,874.32)</u>         |
| Total Nonoperating Revenue (Expense)   | <u>(26,359.34)</u>         | <u>(12,552.96)</u>         | <u>(41,661.00)</u>          | <u>(80,573.30)</u>         |
| Change in Net Position                 | <u>(14,225.85)</u>         | <u>23,257.11</u>           | <u>164,931.83</u>           | <u>173,963.09</u>          |
| Net Position - Beginning               | 1,651,435.95               | 1,389,875.59               | 706,311.11                  | 3,747,622.65               |
| <b>NET POSITION - ENDING</b>           | <u><u>1,637,210.10</u></u> | <u><u>1,413,132.70</u></u> | <u><u>871,242.94</u></u>    | <u><u>3,921,585.74</u></u> |

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2016**

|  | <b>Enterprise Funds</b> |                       |                             | <b>Totals</b>       |
|--|-------------------------|-----------------------|-----------------------------|---------------------|
|  | <b>Water<br/>Fund</b>   | <b>Sewer<br/>Fund</b> | <b>Natural Gas<br/>Fund</b> |                     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                     |                         |                       |                             |                     |
| Cash Receipts from Customers                                     | 192,170.17              | 109,686.29            | 570,647.41                  | 872,503.87          |
| Cash Payments to Employees for Services                          | (36,480.38)             | (32,360.10)           | (33,372.26)                 | (102,212.74)        |
| Cash Payments to Suppliers of Goods and Services                 | (89,876.22)             | (12,286.47)           | (242,337.39)                | (344,500.08)        |
| Net Cash Provided (Used) by Operating Activities                 | <u>65,813.57</u>        | <u>65,039.72</u>      | <u>294,937.76</u>           | <u>425,791.05</u>   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b> |                         |                       |                             |                     |
| Purchase of Capital Assets                                       | (2,148.35)              |                       | (15,523.88)                 | (17,672.23)         |
| Principal Paid on Capital Debt                                   | (31,307.31)             | (21,386.43)           | (138,359.82)                | (191,053.56)        |
| Interest Paid on Capital Debt                                    | (28,083.01)             | (12,946.57)           | (38,340.18)                 | (79,369.76)         |
| Net Cash (Used) by Capital and Related Financing Activities      | <u>(61,538.67)</u>      | <u>(34,333.00)</u>    | <u>(192,223.88)</u>         | <u>(288,095.55)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                     |                         |                       |                             |                     |
| Cash Received for Interest                                       | 1,450.48                | 220.23                | 630.22                      | 2,300.93            |
| Net Cash Provided by Investing Activities                        | <u>1,450.48</u>         | <u>220.23</u>         | <u>630.22</u>               | <u>2,300.93</u>     |
| Net Increase (Decrease) in Cash and Cash Equivalents             | <u>5,725.38</u>         | <u>30,926.95</u>      | <u>103,344.10</u>           | <u>139,996.43</u>   |
| Balances - Beginning   | 762,673.99              | 560,873.87            | 338,578.79                  | 1,662,126.65        |
| Balances - Ending  | <u>768,399.37</u>       | <u>591,800.82</u>     | <u>441,922.89</u>           | <u>1,802,123.08</u> |

The notes to the financial statements are an integral part of this statement.



**MUNICIPALITY OF GARRETSON**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2016**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

|  | Enterprise Funds |            |                  | Totals      |
|--|------------------|------------|------------------|-------------|
|  | Water Fund       | Sewer Fund | Natural Gas Fund |             |
| Operating Income (Loss)  | 12,133.49        | 35,810.07  | 206,592.83       | 254,536.39  |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: |                  |            |                  |             |
| Depreciation Expense   | 56,973.80        | 28,444.38  | 37,951.88        | 123,370.06  |
| (Increase) decrease in Receivables   | (221.11)         | 1,300.76   | 25,338.69        | 26,418.34   |
| (Increase) decrease in Net Pension Asset   | 5,633.26         | 5,064.41   | 5,120.67         | 15,818.34   |
| (Increase) decrease in Pension Related Deferred Outflows                                       | (6,988.28)       | (5,119.03) | (3,337.97)       | (15,445.28) |
| (Decrease) increase in Accounts and Other Payables   | (1,992.57)       | (176.34)   | 15,379.62        | 13,210.71   |
| (Decrease) increase in Accrued Leave Payable   | (137.62)         | (137.62)   | (164.58)         | (439.82)    |
| (Decrease) increase in Pension Related Deferred Inflows  | (7,100.24)       | (6,471.42) | (6,682.58)       | (20,254.24) |
| (Decrease) increase in Net Pension Liability   | 7,621.23         | 6,324.51   | 5,562.17         | 19,507.91   |
| (Decrease) increase in Unearned Revenue  |                  |            | 9,362.96         | 9,362.96    |
| (Decrease) increase in Customer Deposits   | (108.39)         |            | (185.93)         | (294.32)    |
| Net Cash Provided (Used) by Operating Activities   | 65,813.57        | 65,039.72  | 294,937.76       | 425,791.05  |

The notes to the financial statements are an integral part of this statement.

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## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. Financial Reporting Entity:

The reporting entity of the Municipality of Garretson (Municipality) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

#### b. Basis of Presentation:

##### Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

##### Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

The funds of the Municipality financial reporting entity are described below:

Governmental Funds:

General Fund – The General Fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Second Penny Sales Tax Fund – to account for the receipt and expenditure of a second penny sales tax to pay for the debt service of the sales tax revenue bonds and other items. This is a major fund.

Liquor, Lodging and Dining Sales Tax Fund – to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the promotion of advertising of the city. (SDCL 10-52-8) This is a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fee and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.

Sewer Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

Natural Gas Fund – financed primarily by user charges, this fund accounts for the construction and operation of a natural gas system. (SDCL 9-39-1 and 9-39-26) This is a major fund.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Municipality of Garretson, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2017 and 2016 are sales tax and intergovernmental revenue from the state of South Dakota.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6.

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

Capital assets are recorded at historical cost. Donated capital assets are valued at their estimated acquisition value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The December 31, 2017 and 2016 balances of governmental activities capital assets and business-type capital assets are all valued at original cost.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 1980, were not required to be capitalized by the Municipality. Infrastructure assets acquired since January 1, 1980 are recorded at cost, and classified as "Improvements Other than Buildings."

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an unallocated expense in the government-wide Statement of Activities. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Position.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

|                                   | Capitalization<br>Threshold | Depreciation<br>Method | Estimated<br>Useful Life |
|-----------------------------------|-----------------------------|------------------------|--------------------------|
| Land and Land Rights              | \$ -                        | - - N/A - -            | - - N/A - -              |
| Improvements Other Than Buildings | \$ 5,000.00                 | Straight-line          | 5-50 yrs.                |
| Buildings                         | \$ 5,000.00                 | Straight-line          | 25-100 yrs.              |
| Machinery                         | \$ 4,000.00                 | Straight-line          | 5-60 yrs.                |
| Furniture and Equipment           | \$ 300.00                   | Straight-line          | 5-20 yrs.                |

Land is an inexhaustible capital asset and is not depreciated.

#### Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

#### f. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of revenue bonds, promissory notes, and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

#### g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

h. Deferred Inflows and Deferred Outflows of Resources:

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues and expenses.

j. Cash and Cash Equivalents:

The Municipality pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

k. Equity Classifications:

Government-wide Statements:

Equity is classified as net position and is displayed in three components.

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned" and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

I. Application of Net Position:

It is the Municipality's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

m. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Municipality classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Finance Officer.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Nonspendable Fund Balance is comprised of the following:

- Amount reported in non-spendable form such as inventory and prepaid expenses.
- Amount legally or contractually required to be maintained intact such as South Dakota Insurance Reserve.

The Municipal Governing Board committed the following fund balance types by taking the following action:

| <u>Fund Balance Type</u> | <u>2016<br/>Amount</u> | <u>2017<br/>Amount</u> | <u>Action</u> |
|--------------------------|------------------------|------------------------|---------------|
| Capital Replacement      | \$1,001,197.47         | \$1,113,428.64         | Ordinance     |

The Municipality uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Municipality would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Municipality does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

| <u>Major Special Revenue Fund:</u> | <u>Revenue Source:</u> |
|------------------------------------|------------------------|
| Second Penny Sales Tax Fund        | Sales Tax              |
| Liquor, Lodging, & Dining Fund     | Sales Tax              |



NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

n. Pensions:

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Municipal contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The Municipality is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

|               | <u>Year Ended</u><br><u>12/31/2016</u> | <u>Year Ended</u><br><u>12/31/2017</u> |
|---------------|--|--|
| General Fund: |  |  |
| Fire          |  | \$ 5,444.80                            |
| Health        | \$ 353.34                              |  |
| Debt Service  | \$ 4,300.27                            |  |

The Municipal Council plans to take the following actions to address these violations: Supplemental budgets will be used when legal authority exists.

3. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The Municipality follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

**Deposits** – The Municipality's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-20-1, 9-20-1.1 and 9-20-1.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

**Investments** – In general, SDCL 4-5-6 permits Municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2017 and 2016, the Municipality did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Credit Risk – State law limits eligible investments for the Municipality, as discussed above. The Municipality has no investment policy that would further limit its investment choices.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the Municipality's deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk.

Concentration of Credit Risk – The Municipality places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The Municipality does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality's policy is to credit all income from investments to the fund making the investment.

4. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The Municipality expects all receivables to be collected within one year.

5. RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

| <u>12/31/2017</u> | <u>12/31/2016</u> |                                     |
|-------------------|-------------------|-------------------------------------|
| Amount:           | Amount:           | Purpose:                            |
| \$ 209,500.00     | \$ 209,500.00     | For Debt Service, by debt covenants |

6. PROPERTY TAXES

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The Municipality is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable property in the Municipality.

7. INVENTORY

Inventory acquired for resale in the General Fund is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories are off-set by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the two years ended December 31, 2017, is as follows:

|  | Balance<br>01/01/2016 | Increases    | Decreases      | Balance<br>12/31/2017 |
|--|-----------------------|--------------|----------------|-----------------------|
| Governmental Activities:   |                       |              |                |                       |
| Capital Assets, not being Depreciated:                               |                       |              |                |                       |
| Land   | 172,643.50            |              | (19,404.16)    | 153,239.34            |
| Construction Work in Progress  | 809,714.79            | 808,445.45   | (1,611,842.27) | 6,317.97              |
| Total Capital Assets, not being Depreciated                          | 982,358.29            | 808,445.45   | (1,631,246.43) | 159,557.31            |
| Capital Assets, being Depreciated:                                   |                       |              |                |                       |
| Buildings  | 567,663.63            | 16,337.69    |                | 584,001.32            |
| Improvements Other Than Buildings                                    | 1,088,669.51          | 1,759,680.90 |                | 2,848,350.41          |
| Machinery and Equipment  | 381,623.44            | 71,211.51    | (24,000.00)    | 428,834.95            |
| Total  | 2,037,956.58          | 1,847,230.10 | (24,000.00)    | 3,861,186.68          |
| Less Accumulated Depreciation for:                                   |                       |              |                |                       |
| Buildings  | (199,324.97)          | (26,048.80)  |                | (225,373.77)          |
| Improvements Other Than Buildings                                    | (307,917.91)          | (154,508.80) |                | (462,426.71)          |
| Machinery and Equipment  | (247,897.72)          | (41,878.62)  | 13,440.00      | (276,336.34)          |
| Total Accumulated Depreciation                                       | (755,140.60)          | (222,436.22) | 13,440.00      | (964,136.82)          |
| Total Governmental Activities Capital Assets, being Depreciated, Net | 1,282,815.98          | 1,624,793.88 | (10,560.00)    | 2,897,049.86          |
| Governmental Activity Capital Assets, Net                            | 2,265,174.27          | 2,433,239.33 | (1,641,806.43) | 3,056,607.17          |

Depreciation expense was charged to functions as follows:

|  | 2017          | 2016          |
|--|---------------|---------------|
| Governmental Activities:                             |               |               |
| Depreciation - Unallocated                           | \$ 115,901.07 | \$ 106,535.15 |
| Total Depreciation Expense - Governmental Activities | \$ 115,901.07 | \$ 106,535.15 |

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

|   | Balance<br>01/01/2016 | Increases    | Decreases | Balance<br>12/31/2017 |
|---|-----------------------|--------------|-----------|-----------------------|
| Business-Type Activities:   |                       |              |           |                       |
| Capital Assets, not being Depreciated:                                |                       |              |           |                       |
| Land  | 138,962.86            |              |           | 138,962.86            |
| Total Capital Assets, not being Depreciated                           | 138,962.86            | 0.00         | 0.00      | 138,962.86            |
| Capital Assets, being Depreciated:                                    |                       |              |           |                       |
| Buildings   | 707,462.54            |              |           | 707,462.54            |
| Improvements Other Than Buildings                                     | 4,973,847.13          | 110,016.00   |           | 5,083,863.13          |
| Machinery and Equipment   | 455,101.55            | 29,885.23    |           | 484,986.78            |
| Total   | 6,136,411.22          | 139,901.23   | 0.00      | 6,276,312.45          |
| Less Accumulated Depreciation for:                                    |                       |              |           |                       |
| Buildings   | (244,399.05)          | (22,405.38)  |           | (266,804.43)          |
| Improvements Other Than Buildings                                     | (1,689,788.94)        | (184,245.23) |           | (1,874,034.17)        |
| Machinery and Equipment   | (265,164.78)          | (53,791.14)  |           | (318,955.92)          |
| Total Accumulated Depreciation  | (2,199,352.77)        | (260,441.75) | 0.00      | (2,459,794.52)        |
| Total Business-Type Activities Capital Assets, being Depreciated, Net | 3,937,058.45          | (120,540.52) | 0.00      | 3,816,517.93          |
| Business-Type Activity Capital Assets, Net                            | 4,076,021.31          | (120,540.52) | 0.00      | 3,955,480.79          |

Depreciation expense was charged to functions as follows:

| Business-Type Activities:                             | 2017          | 2016          |
|---|---------------|---------------|
| Water Fund  | \$ 56,175.00  | \$ 56,973.80  |
| Sewer Fund  | 35,833.05     | 28,444.38     |
| Natural Gas Fund                                      | 45,063.64     | 37,951.88     |
| Total Depreciation Expense - Business-Type Activities | \$ 137,071.69 | \$ 123,370.06 |

Construction Work in Progress at December 31, 2017 is composed of the following:

| Project Name | Project<br>Authorization | Expended<br>Thru<br>12/31/2017 | Committed | Required<br>Future<br>Financing |
|--------------|--------------------------|--------------------------------|-----------|---------------------------------|
| SDTAP        | 172,528.65               | 6,317.97                       | 0.00      | 166,210.68                      |
| Total        | 172,528.65               | 6,317.97                       | 0.00      | 166,210.68                      |

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

9. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

|   | Beginning<br>Balance<br>01/01/16 | Additions  | Deletions  | Ending<br>Balance<br>12/31/17 | Due Within<br>One Year |
|---|----------------------------------|------------|------------|-------------------------------|------------------------|
| Primary Government:                                   |                                  |            |            |                               |                        |
| Governmental Activities:                              |                                  |            |            |                               |                        |
| Dam Replacement Loan                                  | 0.00                             | 200,000.00 | 8,360.51   | 191,639.49                    | 16,344.21              |
| Total Debt  | 0.00                             | 200,000.00 | 8,360.51   | 191,639.49                    | 16,344.21              |
| Accrued Compensated Absences-<br>Governmental Funds   | 6,993.49                         | 9,788.68   | 12,875.44  | 3,906.73                      | 3,906.73               |
| Total Governmental Activities                         | 6,993.49                         | 209,788.68 | 21,235.95  | 195,546.22                    | 20,250.94              |
| Business-Type Activities:                             |                                  |            |            |                               |                        |
| Bonds Payable:  |                                  |            |            |                               |                        |
| SRF Loan - Drinking Water #1                          | 814,026.83                       |            | 63,724.83  | 750,302.00                    | 33,567.12              |
| SRF Loan - Clean Water #1                             | 406,321.92                       |            | 43,476.43  | 362,845.49                    | 22,816.72              |
| Gas Utility Loan                                      | 787,737.97                       |            | 288,305.31 | 499,432.66                    | 154,793.55             |
| Unamortized Bond Discount                             | 13,215.16                        |            | 4,530.92   | 8,684.24                      | 2,265.46               |
| Deferred Charge on Refunding                          | 36,752.71                        |            | 12,600.92  | 24,151.79                     | 6,300.46               |
| Total Debt  | 2,058,054.59                     | 0.00       | 412,638.41 | 1,645,416.18                  | 219,743.31             |
| Accrued Compensated Absences -<br>Business-Type Funds | 8,420.77                         | 11,038.22  | 8,148.70   | 11,310.29                     | 4,000.00               |
| Total Business-Type Activities                        | 2,066,475.36                     | 11,038.22  | 420,787.11 | 1,656,726.47                  | 223,743.31             |
| TOTAL PRIMARY GOVERNMENT                              | 2,073,468.85                     | 220,826.90 | 442,023.06 | 1,852,272.69                  | 243,994.25             |

In prior years the Municipality defeased certain Gas Utility Revenue Refunding Bonds by paying all future debt service payments on the old bonds. Therefore, as of December 31, 2017, the Municipality had retired all the old bonds which are now considered defeased.

Debt payable at December 31, 2017 is comprised of the following:

State Revolving Fund (SRF) Loan:

\$1,261,060.00 State Revolving Fund Loan Drinking Water #1;  
Due in quarterly installments of \$14,847.58 through July 1, 2034;  
Interest rate at 3.50%; debt is being paid by the Water Fund.

\$ 750,302.00

State Revolving Fund (SRF) Loan:

\$507,445.00 State Revolving Fund Loan Clean Water #1;  
For lift station and gravity sewer project;  
Due in quarterly installments of \$3,120.93 through June 15, 2030;  
Interest rate at 3.75%; debt is being paid by the Sewer Fund.

\$ 362,845.49

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Gas Utility Loan:

Gas Utility Loan; Due in semi-annual installments of \$88,350.00;  
Maturity Date December 12, 2020; Fixed interest rate of 4.75%;  
Debt is being paid by the Natural Gas Fund.

\$ 499,432.66

Dam Replacement Loan:

Dam Replacement Loan; Due in semi-annual installments of \$12,688.29;  
Maturity Date May 30, 2022; Fixed interest rate of 4.75%;  
Debt is being paid by the General Fund.

\$ 191,639.49

Compensated Absences:

Unused Vacation Leave for employees. The liability will be  
paid from the fund paying the employees' wages.

Payable from General Fund

\$ 3,906.73

Payable from Water Fund

\$ 3,701.78

Payable from Sewer Fund

\$ 3,701.78

Payable from Natural Gas Fund

\$ 3,906.73

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2017, except for compensated absences but including interest payments of \$405,418.07, are as follows:

Annual Requirements to Maturity for Long-Term Debt  
December 31, 2017

| Year Ending<br>December 31, | Notes Payable -<br>Dam Replacement |                  | State Revolving Fund Loan<br>- Drinking Water #1 |                   |
|-----------------------------|------------------------------------|------------------|--|-------------------|
|                             | Principal                          | Interest         | Principal  | Interest          |
| 2018                        | 16,344.21                          | 9,032.37         | 33,567.12  | 25,823.20         |
| 2019                        | 17,140.82                          | 8,235.76         | 34,757.48  | 24,632.84         |
| 2020                        | 17,954.88                          | 7,421.70         | 35,990.06  | 23,400.26         |
| 2021                        | 18,851.36                          | 6,525.22         | 37,266.33  | 22,123.99         |
| 2022                        | 121,348.22                         | 2,898.03         | 38,587.87  | 20,802.45         |
| 2023-2027                   |                                    |                  | 214,462.16                                       | 82,489.44         |
| 2028-2032                   |                                    |                  | 255,282.85                                       | 41,668.75         |
| 2033-2037                   |                                    |                  | 100,388.13                                       | 3,544.93          |
| Totals                      | <u>191,639.49</u>                  | <u>34,113.08</u> | <u>750,302.00</u>                                | <u>244,485.86</u> |

| Year Ending<br>December 31, | State Revolving Fund Loan<br>- Clean Water #1 |                  | Gas Utility Loan  |                  |
|-----------------------------|---|------------------|-------------------|------------------|
|                             | Principal                                     | Interest         | Principal         | Interest         |
| 2018                        | 22,816.72                                     | 11,516.28        | 154,793.55        | 21,906.45        |
| 2019                        | 23,567.36                                     | 10,765.64        | 162,233.56        | 14,466.44        |
| 2020                        | 24,342.68                                     | 9,990.32         | 170,031.16        | 6,668.84         |
| 2021                        | 25,143.51                                     | 9,189.49         | 12,374.39         | 293.89           |
| 2022                        | 25,970.69                                     | 8,362.31         |                   |                  |
| 2023-2027                   | 143,245.51                                    | 28,419.49        |                   |                  |
| 2028-2032                   | 97,759.02                                     | 5,239.98         |                   |                  |
| 2033-2037                   |   |                  |                   |                  |
| Totals                      | <u>362,845.49</u>                             | <u>83,483.51</u> | <u>499,432.66</u> | <u>43,335.62</u> |

| Year Ending<br>December 31, | Totals              |                   |
|-----------------------------|---------------------|-------------------|
|                             | Principal           | Interest          |
| 2018                        | 227,521.60          | 68,278.30         |
| 2019                        | 237,699.22          | 58,100.68         |
| 2020                        | 248,318.78          | 47,481.12         |
| 2021                        | 93,635.59           | 38,132.59         |
| 2022                        | 185,906.78          | 32,062.79         |
| 2023-2027                   | 357,707.67          | 110,908.93        |
| 2028-2032                   | 353,041.87          | 46,908.73         |
| 2033-2037                   | 100,388.13          | 3,544.93          |
| Totals                      | <u>1,804,219.64</u> | <u>405,418.07</u> |

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

10. WATER PURCHASE AGREEMENT

The Municipality of Garretson entered into a thirty-year agreement with Minnehaha Community Water Corporation to provide water to the Municipality. A charge is paid by the Municipality to Minnehaha Community Water Corporation of \$0.00175 per gallon of water consumed. The Municipality will not acquire ownership of any of these water facilities through these payments. Payments are made from the Municipality's Water Fund. There are no minimum payments on this agreement.

11. RESTRICTED NET POSITION

Restricted net position for the years ended December 31, 2016 and 2017 were as follows:

| Major Purpose:                | 12/31/2016 | 12/31/2017 |
|-------------------------------|------------|------------|
| City Promotion                | 29,845.26  | 35,212.41  |
| SDRS Pension                  | 30,625.17  | 55,944.58  |
| Debt Service                  | 209,500.00 | 209,500.00 |
| Cumulative Insurance Reserve  | 27,085.69  | 27,085.69  |
| Total Restricted Net Position | 297,056.12 | 327,742.68 |

These balances are restricted due to loan and statutory requirements.

12. PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1<sup>st</sup> is indexed to the consumer price index (CPI) based on SDRS funded status:



NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
  - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2017, 2016, and 2015 were \$8,711.67, \$8,697.02, and \$8,525.86, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2016, SDRS is 96.89% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2016 and reported by the Municipality as of December 31, 2016 are as follows:

|   |                     |
|---|---------------------|
| Proportionate share of pension liability                                | \$ 952,718.25       |
| Less proportionate share of net pension restricted for pension benefits | <u>923,060.95</u>   |
| Proportionate share of net pension liability (asset)                    | <u>\$ 29,657.30</u> |

At December 31, 2016, the Municipality reported a liability (asset) of \$29,657.30 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2016 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

At June 30, 2016, the Municipality's proportion was 0.0087798%, which is an increase of 0.0012695% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Municipality recognized pension expense (reduction of pension expense) of \$17,957.64. At December 31, 2016 the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred Outflows<br/>Of Resources</u> | <u>Deferred Inflows<br/>Of Resources</u> |
|---|---|--|
| Difference between expected and actual experience.  | \$ 10,324.36                              |  |
| Changes in assumption.  | \$ 17,763.32                              |  |
| Net Difference between projected and actual earnings on pension plan investments.                                 | \$ 32,988.95                              |  |
| Changes in proportion and difference between Municipality contributions and proportionate share of contributions. |   | \$ 4,960.60                              |
| Municipality contributions subsequent to the measurement date.  | \$ 4,389.86                               |  |
| <b>TOTAL</b>  | <u>\$ 65,466.49</u>                       | <u>\$ 4,960.60</u>                       |

\$4,389.86 reported as deferred outflow of resources related to pensions resulting from Municipality contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended  
December 31:

|              |                     |
|--------------|---------------------|
| 2017         | \$ 14,984.02        |
| 2018         | \$ 8,472.59         |
| 2019         | \$ 19,450.16        |
| 2020         | \$ 13,209.26        |
| <b>TOTAL</b> | <u>\$ 56,116.03</u> |

At June 30, 2017, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2017 and reported by the Municipality as of December 31, 2017 are as follows:

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

|   |                           |
|---|---------------------------|
| Proportionate share of pension liability                                | \$ 876,333.82             |
| Less proportionate share of net pension restricted for pension benefits | <u>877,017.35</u>         |
| Proportionate share of net pension liability (asset)                    | <u><u>\$ (683.53)</u></u> |

At December 31, 2017, the Municipality reported a liability (asset) of \$(683.53) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the Municipality's proportion was 0.0075319%, which is a decrease of 0.0012479% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Municipality recognized pension expense (reduction of pension expense) of \$(16,384.32). At December 31, 2017 the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred Outflows<br/>Of Resources</u> | <u>Deferred Inflows<br/>Of Resources</u> |
|---|---|--|
| Difference between expected and actual experience.  | \$ 10,951.99                              |  |
| Changes in assumption.  | \$ 53,071.68                              |  |
| Net Difference between projected and actual earnings on pension plan investments.                                 |   | \$ 13,141.50                             |
| Changes in proportion and difference between Municipality contributions and proportionate share of contributions. | \$ 3,464.44                               | \$ 3,464.16                              |
| Municipality contributions subsequent to the measurement date.  | <u>\$ 4,378.60</u>                        |  |
| TOTAL   | <u><u>\$ 71,866.71</u></u>                | <u><u>\$ 16,605.66</u></u>               |

\$4,378.60 reported as deferred outflow of resources related to pensions resulting from Municipality contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Year Ended  
December 31:

|              |           |                         |
|--------------|-----------|-------------------------|
| 2018         | \$        | 13,305.48               |
| 2019         | \$        | 22,731.02               |
| 2020         | \$        | 17,506.39               |
| 2021         | \$        | (2,660.45)              |
| <b>TOTAL</b> | <b>\$</b> | <b><u>50,882.44</u></b> |

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 3.25 percent  |
| Salary Increases          | 5.83 percent at entry to 3.87 percent after 30 years of service                               |
| Investment Rate of Return | 7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense |

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Global Equity      | 58.0%                    | 4.5%  |
| Fixed Income       | 30.0%                    | 1.8%  |
| Real Estate        | 10.0%                    | 4.6%  |
| Cash               | 2.0%                     | 0.7%  |
| <b>Total</b>       | <b><u>100%</u></b>       |   |

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

The total pension liability (asset) in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                  |  |
|------------------|--|
| Inflation        | 2.25 percent   |
| Salary Increases | Graded by years of service, from 6.50% at entry to 3.00% |
| Discount Rate    | 6.50% net of plan investment expense                     |

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for female and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Global Equity      | 58.0%                    | 4.8%  |
| Fixed Income       | 30.0%                    | 1.8%  |
| Real Estate        | 10.0%                    | 4.6%  |
| Cash               | 2.0%                     | 0.7%  |
| Total              | 100%                     |   |

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:

The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

|   | <u>1%</u><br><u>Decrease</u> | <u>Current</u><br><u>Discount</u><br><u>Rate</u> | <u>1%</u><br><u>Increase</u> |
|---|------------------------------|--|------------------------------|
| Municipality's proportionate share of the net pension liability (asset) | \$ 125,187.98                | \$(683.53)                                       | \$(103,183.87)               |

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

**13. SIGNIFIGANT CONTINGENCIES – LITIGATION**

At December 31, 2017 and 2016, the Municipality was not involved in any significant litigation.

**14. RISK MANAGEMENT**

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2017 and 2016, the Municipality managed its risks as follows:

Employee Health Insurance:

The Municipality purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The Municipality joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The Municipality's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Municipality. The Municipality pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The Municipality pays an annual premium to the pool to provide coverage for general liability, government officials liability, and government automobile liability.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage's will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The Municipality carries a \$250 deductible for the vehicles coverage and a \$500 deductible for the buildings and structures. A portion of the member premiums are also allocated to a cumulative reserve fund. The Municipality would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

|  |      |
|--|------|
| End of Municipality's First Full Year                | 50%  |
| End of Municipality's Second Full Year               | 60%  |
| End of Municipality's Third Full Year                | 70%  |
| End of Municipality's Fourth Full Year               | 80%  |
| End of Municipality's Fifth Full Year                | 90%  |
| End of Municipality's Sixth Full Year and Thereafter | 100% |

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

As of December 31, 2017 and 2016, the Municipality has vested balance in the cumulative reserve fund of \$27,085.69.

The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium to the pool to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage over the past three years.

Unemployment Benefits:

The Municipality provided coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

15. ACCOUNTABILITY FOR RELATED ORGANIZATIONS

The Garretson Community Pool Foundation owns the public swimming pool in the Municipality. The Foundation runs the daily operations but the Municipality pays the insurance and employees. The Foundation reimburses the Municipality at the end of the season. The mayor is the liaison for the Municipality.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF GARRETSON**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2017**

|   | <b>Budgeted Amounts</b> |                   | <b>Actual Amounts</b>    | <b>Variance with</b>       |
|---|-------------------------|-------------------|--------------------------|----------------------------|
|   | <b>Original</b>         | <b>Final</b>      | <b>(Budgetary Basis)</b> | <b>Final Budget -</b>      |
|   |                         |                   |                          | <b>Positive (Negative)</b> |
| <b>Revenues:</b>                                    |                         |                   |                          |                            |
| <b>Taxes:</b>                                       |                         |                   |                          |                            |
| General Property Taxes                              | 323,383.52              | 323,383.52        | 318,123.54               | (5,259.98)                 |
| General Sales and Use Taxes                         | 195,000.00              | 195,000.00        | 190,575.66               | (4,424.34)                 |
| Amusement Taxes                                     | 136.95                  | 136.95            | 156.00                   | 19.05                      |
| Penalties and Interest on Delinquent Taxes          | 293.78                  | 293.78            | 697.83                   | 404.05                     |
| Licenses and Permits                                | 6,500.00                | 6,500.00          | 6,896.13                 | 396.13                     |
| <b>Intergovernmental Revenue:</b>                   |                         |                   |                          |                            |
| State Grants  | 1,500.00                | 1,500.00          | 0.00                     | (1,500.00)                 |
| <b>State Shared Revenue:</b>                        |                         |                   |                          |                            |
| Bank Franchise Tax                                  | 7,300.00                | 7,300.00          | 9,529.24                 | 2,229.24                   |
| Liquor Tax Reversion                                | 3,800.00                | 3,800.00          | 7,575.77                 | 3,775.77                   |
| Motor Vehicle Licenses                              | 7,800.00                | 7,800.00          | 10,536.66                | 2,736.66                   |
| Liquor License Reversion                            | 12,496.86               | 12,496.86         | 11,179.29                | (1,317.57)                 |
| Local Government Highway<br>and Bridge Fund         | 15,000.00               | 15,000.00         | 13,208.64                | (1,791.36)                 |
| Other   | 1,200.00                | 1,200.00          | 1,047.14                 | (152.86)                   |
| <b>County Shared Revenue:</b>                       |                         |                   |                          |                            |
| County Wheel Tax                                    | 1,900.00                | 1,900.00          | 1,998.45                 | 98.45                      |
| <b>Charges for Goods and Services:</b>              |                         |                   |                          |                            |
| Public Safety                                       | 2,000.00                | 2,000.00          | 705.44                   | (1,294.56)                 |
| Highways and Streets                                | 600.00                  | 600.00            | 0.00                     | (600.00)                   |
| Sanitation  | 8,200.00                | 8,200.00          | 6,800.33                 | (1,399.67)                 |
| Health  | 0.00                    | 0.00              | 534.00                   | 534.00                     |
| Culture and Recreation                              | 26,884.64               | 26,884.64         | 27,655.52                | 770.88                     |
| <b>Fines and Forfeits:</b>                          |                         |                   |                          |                            |
| Court Fines and Costs                               | 150.00                  | 150.00            | 0.00                     | (150.00)                   |
| Other   | 650.00                  | 650.00            | 0.00                     | (650.00)                   |
| <b>Miscellaneous Revenue:</b>                       |                         |                   |                          |                            |
| Investment Earnings                                 | 1,500.00                | 1,500.00          | 1,658.08                 | 158.08                     |
| Rentals   | 600.00                  | 600.00            | 400.00                   | (200.00)                   |
| Contributions and Donations<br>from Private Sources | 750.00                  | 750.00            | 806.41                   | 56.41                      |
| Other   | 10,200.00               | 10,200.00         | 5,229.90                 | (4,970.10)                 |
| <b>Total Revenue</b>                                | <b>627,845.75</b>       | <b>627,845.75</b> | <b>615,314.03</b>        | <b>(12,531.72)</b>         |
| <b>Expenditures:</b>                                |                         |                   |                          |                            |
| <b>General Government:</b>                          |                         |                   |                          |                            |
| Legislative   | 2,675.00                | 4,175.00          | 3,438.25                 | 736.75                     |
| Executive   | 16,546.91               | 26,546.91         | 26,019.38                | 527.53                     |
| Elections   | 650.00                  | 650.00            | 24.20                    | 625.80                     |
| Financial Administration                            | 108,408.37              | 108,408.37        | 57,933.28                | 50,475.09                  |
| Other   | 39,836.32               | 47,336.32         | 41,483.59                | 5,852.73                   |
| <b>Total General Government</b>                     | <b>168,116.60</b>       | <b>187,116.60</b> | <b>128,898.70</b>        | <b>58,217.90</b>           |



**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF GARRETSON**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2017**

|  | <b>Budgeted Amounts</b> |              | <b>Actual Amounts</b>    | <b>Variance with</b>                          |
|--|-------------------------|--------------|--------------------------|---|
|  | <b>Original</b>         | <b>Final</b> | <b>(Budgetary Basis)</b> | <b>Final Budget -<br/>Positive (Negative)</b> |
| <b>Expenditures (Continued):</b>                     |                         |              |                          |   |
| Public Safety:                                       |                         |              |                          |   |
| Police   | 75,101.04               | 76,001.04    | 75,962.99                | 38.05   |
| Fire   | 41,456.00               | 41,456.00    | 46,900.80                | (5,444.80)                                    |
| Protective Inspection                                | 1,000.00                | 1,000.00     | 1,000.00                 | 0.00  |
| Total Public Safety                                  | 117,557.04              | 118,457.04   | 123,863.79               | (5,406.75)                                    |
| Public Works:  |                         |              |                          |   |
| Highways and Streets                                 | 62,969.89               | 65,469.89    | 65,276.61                | 193.28  |
| Sanitation   | 4,602.19                | 4,602.19     | 4,076.52                 | 525.67  |
| Total Public Works                                   | 67,572.08               | 70,072.08    | 69,353.13                | 718.95  |
| Health and Welfare:                                  |                         |              |                          |   |
| Health   | 0.00                    | 300.00       | 167.81                   | 132.19  |
| Ambulance  | 35,000.00               | 35,000.00    | 35,000.00                | 0.00  |
| Total Health and Welfare                             | 35,000.00               | 35,300.00    | 35,167.81                | 132.19  |
| Culture and Recreation:                              |                         |              |                          |   |
| Recreation   | 47,571.44               | 48,971.44    | 33,688.95                | 15,282.49                                     |
| Parks  | 56,960.82               | 70,160.82    | 67,491.42                | 2,669.40                                      |
| Libraries  | 1,800.00                | 1,800.00     | 1,078.64                 | 721.36  |
| Museums  | 3,000.00                | 3,000.00     | 3,000.00                 | 0.00  |
| Total Culture and Recreation                         | 109,332.26              | 123,932.26   | 105,259.01               | 18,673.25                                     |
| Debt Service   | 0.00                    | 17,500.00    | 17,411.90                | 88.10   |
| Capital Outlay                                       | 132,000.00              | 132,000.00   | 0.00                     | 132,000.00                                    |
| Total Expenditures                                   | 629,577.98              | 684,377.98   | 479,954.34               | 204,423.64                                    |
| Excess of Revenue Over (Under)<br>Expenditures       | (1,732.23)              | (56,532.23)  | 135,359.69               | 191,891.92                                    |
| <b>Other Financing Sources (Uses):</b>               |                         |              |                          |   |
| Sale of Municipal Property                           | 0.00                    | 0.00         | 59,000.00                | 59,000.00                                     |
| Compensation for Loss or<br>Damage to Capital Assets | 2,000.00                | 2,000.00     | 352.31                   | (1,647.69)                                    |
| Total Other Financing Sources (Uses)                 | 2,000.00                | 2,000.00     | 59,352.31                | 57,352.31                                     |
| Net Change in Fund Balances                          | 267.77                  | (54,532.23)  | 194,712.00               | 249,244.23                                    |
| Fund Balance - Beginning                             | 138,461.39              | 138,461.39   | 138,461.39               | 0.00  |
| FUND BALANCE - ENDING                                | 138,729.16              | 83,929.16    | 333,173.39               | 249,244.23                                    |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF GARRETSON**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**SECOND PENNY SALES TAX FUND**  
**For the Year Ended December 31, 2017**

|                             | <b>Budgeted Amounts</b> |              | <b>Actual Amounts</b>    | <b>Variance with</b>                          |
|-----------------------------|-------------------------|--------------|--------------------------|---|
|                             | <b>Original</b>         | <b>Final</b> | <b>(Budgetary Basis)</b> | <b>Final Budget -<br/>Positive (Negative)</b> |
| <b>Revenues:</b>            |                         |              |                          |   |
| Taxes:                      |                         |              |                          |   |
| General Sales and Use Taxes | 198,700.00              | 198,700.00   | 190,575.69               | (8,124.31)                                    |
| Miscellaneous Revenue:      |                         |              |                          |   |
| Investment Earnings         | 0.00                    | 0.00         | 325.33                   | 325.33  |
| Special Assessments         | 0.00                    | 0.00         | 1,362.56                 | 1,362.56                                      |
| Total Revenue               | 198,700.00              | 198,700.00   | 192,263.58               | (6,436.42)                                    |
| <b>Expenditures:</b>        |                         |              |                          |   |
| General Government:         |                         |              |                          |   |
| Other                       | 0.00                    | 73,000.00    | 72,917.01                | 82.99   |
| Total General Government    | 0.00                    | 73,000.00    | 72,917.01                | 82.99   |
| Public Works:               |                         |              |                          |   |
| Highways and Streets        | 175,000.00              | 175,000.00   | 57,484.65                | 117,515.35                                    |
| Total Public Works          | 175,000.00              | 175,000.00   | 57,484.65                | 117,515.35                                    |
| Total Expenditures          | 175,000.00              | 248,000.00   | 130,401.66               | 117,598.34                                    |
| Net Change in Fund Balances | 23,700.00               | (49,300.00)  | 61,861.92                | 111,161.92                                    |
| Fund Balance - Beginning    | 738,884.26              | 738,884.26   | 738,884.26               | 0.00  |
| FUND BALANCE - ENDING       | 762,584.26              | 689,584.26   | 800,746.18               | 111,161.92                                    |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF GARRETSON**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**LIQUOR, LODGING & DINING SALES TAX FUND**  
**For the Year Ended December 31, 2017**

|                                     | <b>Budgeted Amounts</b> |              | <b>Actual Amounts</b>    | <b>Variance with</b>       |
|-------------------------------------|-------------------------|--------------|--------------------------|----------------------------|
|                                     | <b>Original</b>         | <b>Final</b> | <b>(Budgetary Basis)</b> | <b>Final Budget -</b>      |
|                                     |                         |              |                          | <b>Positive (Negative)</b> |
| <b>Revenues:</b>                    |                         |              |                          |                            |
| Taxes:                              |                         |              |                          |                            |
| General Sales and Use Taxes         | 16,426.34               | 16,426.34    | 12,688.34                | (3,738.00)                 |
| Total Revenue                       | 16,426.34               | 16,426.34    | 12,688.34                | (3,738.00)                 |
| <b>Expenditures:</b>                |                         |              |                          |                            |
| Conservation and Development:       |                         |              |                          |                            |
| Economic Development and            |                         |              |                          |                            |
| Assistance (Industrial Development) | 16,426.34               | 16,426.34    | 7,321.19                 | 9,105.15                   |
| Total Conservation and Development  | 16,426.34               | 16,426.34    | 7,321.19                 | 9,105.15                   |
| Total Expenditures                  | 16,426.34               | 16,426.34    | 7,321.19                 | 9,105.15                   |
| Net Change in Fund Balances         | 0.00                    | 0.00         | 5,367.15                 | 5,367.15                   |
| Fund Balance - Beginning            | 29,845.26               | 29,845.26    | 29,845.26                | 0.00                       |
| FUND BALANCE - ENDING               | 29,845.26               | 29,845.26    | 35,212.41                | 5,367.15                   |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF GARRETSON**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2016**

|  | <b>Budgeted Amounts</b> |                   | <b>Actual Amounts</b>    | <b>Variance with</b>       |
|--|-------------------------|-------------------|--------------------------|----------------------------|
|  | <b>Original</b>         | <b>Final</b>      | <b>(Budgetary Basis)</b> | <b>Final Budget -</b>      |
|  |                         |                   |                          | <b>Positive (Negative)</b> |
| <b>Revenues:</b>                                 |                         |                   |                          |                            |
| Taxes:   |                         |                   |                          |                            |
| General Property Taxes                           | 316,790.00              | 316,790.00        | 313,999.95               | (2,790.05)                 |
| General Sales and Use Taxes                      | 180,000.00              | 180,000.00        | 181,810.18               | 1,810.18                   |
| Amusement Taxes                                  | 0.00                    | 0.00              | 132.00                   | 132.00                     |
| Penalties and Interest on Delinquent Taxes       | 0.00                    | 0.00              | 1,156.13                 | 1,156.13                   |
| Licenses and Permits                             | 3,400.00                | 3,400.00          | 4,001.50                 | 601.50                     |
| Intergovernmental Revenue:                       |                         |                   |                          |                            |
| Federal Grants                                   | 4,400.00                | 4,400.00          | 477,339.88               | 472,939.88                 |
| State Grants                                     | 0.00                    | 0.00              | 49,233.99                | 49,233.99                  |
| State Shared Revenue:                            |                         |                   |                          |                            |
| Bank Franchise Tax                               | 7,500.00                | 7,500.00          | 4,377.00                 | (3,123.00)                 |
| Liquor Tax Reversion                             | 8,000.00                | 8,000.00          | 7,604.14                 | (395.86)                   |
| Motor Vehicle Licenses                           | 9,000.00                | 9,000.00          | 11,051.34                | 2,051.34                   |
| Liquor License Reversion                         | 7,395.06                | 7,395.06          | 2,400.00                 | (4,995.06)                 |
| Local Government Highway and Bridge Fund         | 16,000.00               | 16,000.00         | 14,239.22                | (1,760.78)                 |
| Other  | 1,100.00                | 1,100.00          | 717.74                   | (382.26)                   |
| County Shared Revenue:                           |                         |                   |                          |                            |
| County Wheel Tax                                 | 2,200.00                | 2,200.00          | 2,033.14                 | (166.86)                   |
| Charges for Goods and Services:                  |                         |                   |                          |                            |
| Public Safety                                    | 0.00                    | 0.00              | 125.00                   | 125.00                     |
| Sanitation                                       | 39,574.66               | 39,574.66         | 5,615.09                 | (33,959.57)                |
| Culture and Recreation                           | 0.00                    | 0.00              | 5,027.93                 | 5,027.93                   |
| Fines and Forfeits:                              |                         |                   |                          |                            |
| Court Fines and Costs                            | 1,400.00                | 1,400.00          | 0.00                     | (1,400.00)                 |
| Other  | 0.00                    | 0.00              | 100.00                   | 100.00                     |
| Miscellaneous Revenue:                           |                         |                   |                          |                            |
| Investment Earnings                              | 0.00                    | 0.00              | 1,201.12                 | 1,201.12                   |
| Contributions and Donations from Private Sources | 10,850.00               | 10,850.00         | 10,859.63                | 9.63                       |
| Other  | 0.00                    | 0.00              | 8,564.29                 | 8,564.29                   |
| <b>Total Revenue</b>                             | <b>607,609.72</b>       | <b>607,609.72</b> | <b>1,101,589.27</b>      | <b>493,979.55</b>          |
| <b>Expenditures:</b>                             |                         |                   |                          |                            |
| General Government:                              |                         |                   |                          |                            |
| Legislative                                      | 2,200.00                | 3,250.00          | 2,987.26                 | 262.74                     |
| Contingency                                      | 5,000.00                | 5,000.00          |                          |                            |
| Amount Transferred                               |                         | (4,700.00)        |                          | 300.00                     |
| Executive  | 16,269.78               | 16,269.78         | 15,592.12                | 677.66                     |
| Elections  | 700.00                  | 700.00            | 0.00                     | 700.00                     |
| Financial Administration                         | 103,753.24              | 117,503.24        | 115,299.78               | 2,203.46                   |
| Other  | 34,693.28               | 47,693.28         | 43,918.86                | 3,774.42                   |
| <b>Total General Government</b>                  | <b>162,616.30</b>       | <b>185,716.30</b> | <b>177,798.02</b>        | <b>7,918.28</b>            |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF GARRETSON**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2016**

|  | <b>Budgeted Amounts</b> |              | <b>Actual Amounts</b>    | <b>Variance with</b>                          |
|--|-------------------------|--------------|--------------------------|---|
|  | <b>Original</b>         | <b>Final</b> | <b>(Budgetary Basis)</b> | <b>Final Budget -<br/>Positive (Negative)</b> |
| <b>Expenditures (Continued):</b>                     |                         |              |                          |   |
| Public Safety:                                       |                         |              |                          |   |
| Police   | 73,818.44               | 74,068.44    | 73,994.06                | 74.38   |
| Fire   | 39,937.00               | 39,937.00    | 33,975.26                | 5,961.74                                      |
| Protective Inspection                                | 1,000.00                | 1,000.00     | 611.05                   | 388.95  |
| Total Public Safety                                  | 114,755.44              | 115,005.44   | 108,580.37               | 6,425.07                                      |
| Public Works:  |                         |              |                          |   |
| Highways and Streets                                 | 73,016.41               | 140,166.41   | 129,062.74               | 11,103.67                                     |
| Sanitation   | 3,800.00                | 3,800.00     | 2,407.80                 | 1,392.20                                      |
| Total Public Works                                   | 76,816.41               | 143,966.41   | 131,470.54               | 12,495.87                                     |
| Health and Welfare:                                  |                         |              |                          |   |
| Health   | 0.00                    | 0.00         | 353.34                   | (353.34)                                      |
| Ambulance  | 35,000.00               | 39,122.79    | 39,122.79                | 0.00  |
| Total Health and Welfare                             | 35,000.00               | 39,122.79    | 39,476.13                | (353.34)                                      |
| Culture and Recreation:                              |                         |              |                          |   |
| Recreation   | 39,700.00               | 46,600.00    | 46,023.96                | 576.04  |
| Parks  | 40,712.54               | 890,712.54   | 886,615.72               | 4,096.82                                      |
| Libraries  | 2,300.00                | 2,300.00     | 1,377.86                 | 922.14  |
| Museums  | 1,000.00                | 1,000.00     | 1,000.00                 | 0.00  |
| Total Culture and Recreation                         | 83,712.54               | 940,612.54   | 935,017.54               | 5,595.00                                      |
| Debt Service   | 0.00                    | 0.00         | 4,300.27                 | (4,300.27)                                    |
| Capital Outlay                                       | 128,720.00              | 128,720.00   | 0.00                     | 128,720.00                                    |
| Total Expenditures                                   | 601,620.69              | 1,553,143.48 | 1,396,642.87             | 156,500.61                                    |
| Excess of Revenue Over (Under)<br>Expenditures       | 5,989.03                | (945,533.76) | (295,053.60)             | 650,480.16                                    |
| <b>Other Financing Sources (Uses):</b>               |                         |              |                          |   |
| Proceeds of General Long-Term Debt                   | 0.00                    | 0.00         | 200,000.00               | 200,000.00                                    |
| Sale of Municipal Property                           | 0.00                    | 0.00         | 11,500.00                | 11,500.00                                     |
| Compensation for Loss or<br>Damage to Capital Assets | 0.00                    | 0.00         | 19,602.60                | 19,602.60                                     |
| Total Other Financing Sources (Uses)                 | 0.00                    | 0.00         | 231,102.60               | 231,102.60                                    |
| Net Change in Fund Balances                          | 5,989.03                | (945,533.76) | (63,951.00)              | 881,582.76                                    |
| Fund Balance - Beginning                             | 202,412.39              | 202,412.39   | 202,412.39               | 0.00  |
| FUND BALANCE - ENDING                                | 208,401.42              | (743,121.37) | 138,461.39               | 881,582.76                                    |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF GARRETSON**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**SECOND PENNY SALES TAX FUND**  
**For the Year Ended December 31, 2016**

|                                    | <b>Budgeted Amounts</b> |                    | <b>Actual Amounts</b>    | <b>Variance with</b>                          |
|------------------------------------|-------------------------|--------------------|--------------------------|---|
|                                    | <b>Original</b>         | <b>Final</b>       | <b>(Budgetary Basis)</b> | <b>Final Budget -<br/>Positive (Negative)</b> |
| <b>Revenues:</b>                   |                         |                    |                          |   |
| Taxes:                             |                         |                    |                          |   |
| General Sales and Use Taxes        | 165,000.00              | 165,000.00         | 181,810.12               | 16,810.12                                     |
| Miscellaneous Revenue:             |                         |                    |                          |   |
| Investment Earnings                | 0.00                    | 0.00               | 325.25                   | 325.25  |
| Special Assessments                | 0.00                    | 0.00               | 1,592.05                 | 1,592.05                                      |
| <b>Total Revenue</b>               | <b>165,000.00</b>       | <b>165,000.00</b>  | <b>183,727.42</b>        | <b>18,727.42</b>                              |
| <b>Expenditures:</b>               |                         |                    |                          |   |
| General Government:                |                         |                    |                          |   |
| Other                              | 15,000.00               | 31,219.98          | 31,219.98                | 0.00  |
| Total General Government           | 15,000.00               | 31,219.98          | 31,219.98                | 0.00  |
| Public Works:                      |                         |                    |                          |   |
| Highways and Streets               | 150,000.00              | 150,000.00         | 93,394.06                | 56,605.94                                     |
| Total Public Works                 | 150,000.00              | 150,000.00         | 93,394.06                | 56,605.94                                     |
| <b>Total Expenditures</b>          | <b>165,000.00</b>       | <b>181,219.98</b>  | <b>124,614.04</b>        | <b>56,605.94</b>                              |
| <b>Net Change in Fund Balances</b> | <b>0.00</b>             | <b>(16,219.98)</b> | <b>59,113.38</b>         | <b>75,333.36</b>                              |
| <b>Fund Balance - Beginning</b>    | <b>679,770.88</b>       | <b>679,770.88</b>  | <b>679,770.88</b>        | <b>0.00</b>                                   |
| <b>FUND BALANCE - ENDING</b>       | <b>679,770.88</b>       | <b>663,550.90</b>  | <b>738,884.26</b>        | <b>75,333.36</b>                              |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF GARRETSON**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**LIQUOR, LODGING & DINING SALES TAX FUND**  
**For the Year Ended December 31, 2016**

|   | <u>Budgeted Amounts</u> |              | <u>Actual Amounts</u>    | <u>Variance with</u>                                |
|---|-------------------------|--------------|--------------------------|---|
|   | <u>Original</u>         | <u>Final</u> | <u>(Budgetary Basis)</u> | <u>Final Budget -</u><br><u>Positive (Negative)</u> |
| <b>Revenues:</b>  |                         |              |                          |   |
| Taxes:  |                         |              |                          |   |
| General Sales and Use Taxes                                     | 22,000.00               | 22,000.00    | 14,584.81                | (7,415.19)  |
| Total Revenue   | 22,000.00               | 22,000.00    | 14,584.81                | (7,415.19)  |
| <b>Expenditures:</b>  |                         |              |                          |   |
| General Government:   |                         |              |                          |   |
| Other   | 0.00                    | 1,100.00     | 1,071.42                 | 28.58   |
| Total General Government  | 0.00                    | 1,100.00     | 1,071.42                 | 28.58   |
| Conservation and Development:                                   |                         |              |                          |   |
| Economic Development and<br>Assistance (Industrial Development) | 8,925.00                | 17,825.00    | 15,533.02                | 2,291.98  |
| Total Conservation and Development                              | 8,925.00                | 17,825.00    | 15,533.02                | 2,291.98  |
| Total Expenditures  | 8,925.00                | 18,925.00    | 16,604.44                | 2,320.56  |
| Net Change in Fund Balances                                     | 13,075.00               | 3,075.00     | (2,019.63)               | (5,094.63)  |
| Fund Balance - Beginning  | 31,864.89               | 31,864.89    | 31,864.89                | 0.00  |
| FUND BALANCE - ENDING   | 44,939.89               | 34,939.89    | 29,845.26                | (5,094.63)  |

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund  
and for each major Special Revenue Fund with a legally required budget.

NOTE 1. Budgets and Budgetary Accounting

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpected appropriations lapse at year end unless encumbered by resolution of the Governing Board.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and special revenue funds.

The Municipality did not encumber any amounts at December 31, 2016 or 2017.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the accounting principles generally accepted in the United States (USGAAP).

NOTE 2. GAAP/Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balances, however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.



SUPPLEMENTARY INFORMATIONSCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

Last Three Years

|   | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|
| Municipality's proportion of the net pension liability/asset  | 0.0075319%  | 0.0087798%  | 0.0075103%  |
| Municipality's proportionate share of net pension liability (asset)   | \$ (684)    | \$ 29,657   | \$ (31,853) |
| Municipality's covered-employee payroll   | \$ 145,303  | \$ 144,685  | \$ 137,109  |
| Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 0.47%       | 20.50%      | 23.23%      |
| Plan fiduciary net position as a percentage of the total pension liability (asset)                                      | 100.1%      | 96.89%      | 104.10%     |

The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 06/30 of previous fiscal year.

SUPPLEMENTARY INFORMATION

## SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS

## South Dakota Retirement System

## Last Three Years

|   | <u>2017</u>     | <u>2016</u>     | <u>2015</u>     |
|---|-----------------|-----------------|-----------------|
| Contractually required contribution                                     | \$ 8,712        | \$ 8,697        | \$ 8,526        |
| Contributions in relation to the<br>contractually required contribution | <u>\$ 8,712</u> | <u>\$ 8,697</u> | <u>\$ 8,526</u> |
| Contribution deficiency (excess)  | <u>\$ -</u>     | <u>\$ -</u>     | <u>\$ -</u>     |
| Municipality's covered-employee payroll                                 | \$ 146,193      | \$ 144,873      | \$ 142,097      |
| Contributions as a percentage of<br>covered-employee payroll            | 6.00%           | 6.00%           | 6.00%           |